UNEMPLOYMENT INSURANCE AND THE RECESSION

HEARING

BEFORE THE

SUBCOMMITTEE ON HUMAN RESOURCES

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED SECOND CONGRESS

FIRST SESSION

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UNEMPLOYMENT INSURANCE AND THE RECESSION

WEDNESDAY, FEBRUARY 6, 1991

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON HUMAN RESOURCES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:04 a.m., in room B-318, Rayburn House Office Building, Hon. Thomas J. Downey (acting chairman of the subcommittee) presiding.

[The press release announcing the hearing follows:]

FOR IMMEDIATE RELEASE
TUESDAY, JANUARY 29, 1991

PRESS RELEASE #2
SUBCOMMITTEE ON HUMAN RESOURCES
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-1721

THE HONORABLE THOMAS J. DOWNEY (D., N.Y.), ACTING CHAIRMAN, SUBCOMMITTEE ON HUMAN RESOURCES, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES A HEARING ON UNEMPLOYMENT INSURANCE AND THE RECESSION

The Honorable Thomas J. Downey (D., N.Y.), Acting Chairman, Subcommittee on Human Resources, Committee on Ways and Means, U.S. House of Representatives, today announced the Subcommittee has scheduled a hearing on unemployment insurance (UI) and the recession. The hearing will be held on Wednesday, February 6, 1991, beginning at 10:00 a.m., in room B-318 Rayburn House Office Building.

Mr. Downey said: "Now that most economists recognize the economy is in recession, attention has turned to our first line of defense -- unemployment insurance. To our dismay, we find the system in disrepair. Barely two out of five unemployed persons receive unemployment insurance; Extended Benefits have not activated in any State; and, numerous States will be forced to borrow from the Federal Government as they run out of funds to pay benefits. This hearing will explore ways in which Congress can correct these problems before the system erodes further and unemployed workers suffer needlessly."

The number of unemployed persons increased by 260,000 in December to about 7.6 million. This pushed the civilian unemployment rate up to 6.1 percent, the highest level since June 1987. Since June 1990, the number of workers losing their jobs has increased by 600,000 to 3.8 million. Yet, only a little over three million workers received unemployment compensation, and the number of workers exhausting their benefits is on the rise.

This hearing will be the first of several hearings on unemployment insurance. It will focus on the implications of the recession, overall unemployment, and the ability of the unemployment insurance system to meet the challenge. Oral testimony before the Subcommittee will be limited to <u>invited witnesses only</u>. Public witnesses will have an opportunity to testify at subsequent hearings.

(MORE)

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Any interested person or organization may file written comments for consideration by the Subcommittee and for inclusion in the printed record of the hearing. Persons submitting written statements for the printed record should submit at least six (6) copies of their statement by the close of business, Wednesday, February 20, 1991, to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public, they may deliver 100 additional copies for this purpose to the Subcommittee office, room B-317 Rayburn House Office Building, on or before the day of the hearing.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will **not** be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages.
2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.
3. Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.
4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and public during the course of a public hearing, may be submitted in other forms.

Acting Chairman DOWNEY. The meeting will come to order.

Today we begin the first of a series of hearings on unemployment insurance. This hearing will give us an overview of the unemployment insurance system and its ability to respond to the recession. Later in February, additional hearings will focus on financing, coverage, long-term unemployment, and reemployment assistance.

Now that most economists recognize that the economy is in a recession, our attention is turned to unemployment insurance as our first line of defense. What we find, however, is a system in need of repair. Only about two of five unemployed workers receive unemployment benefits; no State has an activated extended benefits program; some States are expected to run out of funds and will need to borrow from the Federal Government to pay benefits; and long lines have formed at unemployment offices because the Federal Government has not granted enough funds to States for administrative expenses.

Although we hope this recession will be short, the employment news for January was not good. Despite a small increase in the monthly unemployment rate from 6.1 to 6.2 percent, the economy has shown signs of continued weakness. Employment dropped by 232,000 in January, and it has fallen by an average of 205,000 jobs in the last 4 months.

The manufacturing sector alone has lost 70,000 jobs, adding nearly 1 million manufacturing jobs lost since 1988.

I look forward to these hearings with the hope that we can understand these problems and discuss possible answers. Based on the testimony, I plan to introduce and mark up a bill soon that will offer permanent solutions.

These issues are more urgent than ever before, so let us begin.

Do either of my colleagues have statements that they wish to make?

Mr. Levin.

Mr. LEVIN. Mr. Chairman, I have a statement and I would ask that it be printed in the record.

Acting Chairman DOWNEY. Without objection, it is so ordered.

[The prepared opening statement follows:]

OPENING STATEMENT OF HON. SANDER M. LEVIN

Thank you, Mr. chairman, for calling these hearings on the integrity and financial health of our Unemployment Insurance (UI) program. I cannot think of a more timely or important subject, and I look forward to working with you and the other members to address an Unemployment Insurance (UI) program in crisis.

The UI program should not be in the shape it is today. We learned the hard way during the recession in 1981 and 1982 that we needed to prepare carefully for future recessions. Adequate reserves had to be set aside, and the program had to be reformed to cover more workers with adequate benefits for the necessary period of time.

Sadly, as is so often true, budget politics and political agendas squandered the opportunity for reform. Eligibility standards for the Extended Benefits (EB) program were tightened to wring out budget savings. Under the guise of the "new federalism," severe cutbacks were made in information collection and attempts were made to turn the program over to the States. Administrative funding shortfalls were allowed to fester.

A number of us, including the distinguished Acting Chairman, tried over the past few years to correct these problems, to prepare ourselves for the inevitable time when American workers would once again face a recession. We proposed new EB program triggers so that the fate of unemployed workers was not hinged to overall

State unemployment rates, and a mandatory administrative financing scheme to ensure that UI benefits were not delayed simply because there was not enough personnel. Our efforts fell on deaf ears.

So where do we find ourselves today? Where we were a decade ago, unprepared to face another recession.

The national unemployment rate has risen over the past 3 months nearly a full percentage point—to 6.2 percent—and under the administration's own budget projections, will average 6.5 percent for 1991. The total number of unemployed workers has jumped to 3.8 million. The goods-producing sector has been especially battered: of the 647,000 jobs lost in the economy during the last 3 months, 90 percent have been from this sector (321,000 in manufacturing; 261,000 in construction).

I want to call my colleagues' attention to an immediate problem. Before we embark on a major overhaul of the UI program, and I think we should, we must first make sure that the States can provide current services, that the checks arrive on time, that workers are not left stranded and vulnerable.

Simply put, Mr. Chairman, the integrity of our UI program is in jeopardy because the federal Government has shirked its responsibility to provide adequate administrative funding for the program.

We can anticipate that as the recession deepens, many more workers will lose their jobs. They will turn to the UI program, rightfully expect to collect their benefits without delay. Too many of these workers will encounter a UI system in disarray, unable to meet their needs.

Why? Because the funds needed to properly administer the UI program have not been transmitted to the States. The Conference of Employment Service Agencies recently estimated that if the national unemployment rate rose to 6.5 percent, the shortfall would be between $150 and $180 million.

Two days ago, the administration announced it would seek supplemental funding for fiscal year 1991 of $100 million for UI administration. This is a welcome development, but will not be enough. The Department of Labor's own budget documents reveal that the total funding shortfall for 1991 exceeds $200 million, meaning the supplemental only takes care of half the problem.

Furthermore, the administration's request did not come in the form of an emergency declaration, as provided for under the new budget enforcement rules, but rather as a routine supplemental. Consequently, the $100 million will count under the domestic discretionary caps, and may come at the cost of other important programs.

The Labor Department claims there is enough room under the cap to cover the supplemental, but the fact that the Trade Adjustment Assistance (TAA) program and others were cut at the same time that UI administrative funding was increased leads one to suspect that unemployed workers are being played off against each other. This would be a tragedy, and we must work to ensure it does not happen.

For fiscal year 1992, the outlook for UI administrative funding is somewhat better due to the administration's use of more realistic unemployment assumptions. But here again, any number of factors, from a prolonged war in the Gulf to a collapse of our banking insurance system, could render the budget projections optimistic.

The consequences of this funding shortfall have been immediate and tragic. Two weeks ago, I spoke over the phone to Preston Wheeler, a constituent who had called in about UI. Preston is a building tradesman who has been laid off, and he told me he has little prospect of finding new work during the winter months. Though he filed for unemployment 5 weeks ago, he's still waiting for his first check. He wanted to know what the problem was, why it was that the "insurance" system is now failing him. There is no good answer to his question.

Mr. Chairman, this situation is unacceptable. Though UI is an entitlement program paid for through a dedicated tax collected from employers and employees, the administrative funding portion requires a discretionary Federal appropriation. It has therefore become mired in budget politics.

The time has come for a permanent solution to what has become a permanent problem. We should stop wasting precious time and energy every year fighting over the needed supplementals. It distracts our attention from other important work on the UI program. It unfairly leaves American workers like Preston Wheeler stranded.

Instead, as is true with other entitlement programs, we need to make the administrative component of UI program a mandatory spending program. The administration should use the discretion provided it under law to make this change. This reform, more than any other, would insulate UI administrative funding from annual budget battles, and ensure the speedy delivery of benefits to American workers.

Sixty of my colleagues in the House joined me in sending a letter to President Bush recommending that he make administrative funding for the UI program a mandatory spending program, and I hope the Administration will carefully consider this recommendation.

We can and should debate the merits of long-term programmatic reforms to our UI program. We need to examine why our unemployment compensation system only covers one-third of all those who are unemployed. We need to look at the Extended Benefits program, particularly the onerous trigger mechanisms. We need to reevaluate our approach to training programs.

But there should be no argument whatsoever over providing the funding necessary to properly administer our present UI program. The need is there and the funds are there.

What has been lacking in the past is the strong leadership necessary to protect the UI program from the budget process. The time has come to stop playing budget games with the lives of American workers, and to ensure instead that their welfare and those of their families are protected. Let's put the "insurance" back in Unemployment Insurance.

I look forward to hearing from our witnesses today on their ideas for reform in this area.

Mr. LEVIN. If I could just refer to two aspects very, very briefly. One relates to action now. It really is unfortunate that the Congress and the administration did not act before the recession. As you have pointed out so many times, we're trying to now put out fires which we could have anticipated and handled much better through earlier action.

I just want to make a brief comment. You refer in your statements to long lines formed at unemployment offices because the Federal Government has not granted enough funds to States for administrative expenses. Literally, with a stroke of the pen, the President can resolve this. I would hope he would do so.

Last week when I was back home, I tried to reach the Madison Heights office for 4 hours. The line was incessantly busy. People calling to inquire about their checks, as thousands in Michigan, apparently, are now waiting 5 or 6 weeks for their first unemployment comp check. They are thrown out of work through no fault of their own. By a simple act of the Chief Executive Officer of this country they could receive their checks and maybe people could even get through to the unemployment comp office to see what's going on.

I know you have been pressing this. And again, it isn't the main focus of the hearing this morning. I hope that we would continue to do so and that the White House would respond. I don't have an answer. I picked up the phone, I think it was on Saturday a week ago, and an unemployed construction worker said he had waited 5 weeks for his check and asked me what was going on and I didn't have an answer.

Thank you, Mr. Chairman.

Acting Chairman DOWNEY. Well, but the gentleman has had answers in the past being one of the leaders in trying to improve and reform this system, and the Chair wants to personally welcome the gentleman to the subcommittee as an ally indeed.

Mr. Shaw, did you want to make an opening statement?

Mr. SHAW. Yes, I do have an opening statement and I would just ask unanimous consent that it be placed into the record.

Acting Chairman DOWNEY. Without objection, it is so ordered.

[The prepared opening statement follows:]

OPENING STATEMENT OF HON. E. CLAY SHAW, JR.

Mr. Chairman, I'm happy to be serving on this subcommittee again during the 102d Congress. Not the least of the reasons is to once again have the opportunity of working with, that is, trying to keep an eye on, the very effective gentleman from New York who leads our efforts.

Another reason is that we have been joined by several excellent new Members. I want especially to welcome my colleagues Rod Chandler and Fred Grandy. There is no doubt that they will contribute greatly to the serious work we must undertake this session. And, of course, I once again look forward to working with the superb Representative from Connecticut, Nancy Johnson.

We have done great work in the past two Congresses. The most important pieces of social legislation to come out of each Congress—the welfare reform bill in the 100th Congress and day care and child tax credits in the 101st Congress—first saw the light of day in this subcommittee. Our colleagues on the other side of the Hill eventually managed to catch up with this subcommittee and we produced two remarkable bills. The distinguishing characteristic of both bills is that they help working families and families who want to get off welfare and out of poverty. I draw your attention, Tom, to the fact that in the end both Republicans and Democrats gave up part of what they wanted and both bills were passed with bipartisan support.

The budget agreement and procedures enacted by the 101st Congress place some funding issues in the path of this subcommittee. Nonetheless, we face social issues of great importance: unemployment, child support, foster care, and welfare dependency. Once again, if we proceed with prudence, we can do a number of important things on a bipartisan basis.

This morning we consider unemployment, one of the most emotional and important issues that we must tackle this session. Our first objective should be to insure that we give States the money we owe them to effectively operate their programs. We are told that the President has asked for a $100 million supplemental to fund the shortfall in administrative financing. The Department of Labor will probably tell us that the shortfall in funding will be on the order of $200 million. I need to be convinced that we don't have a responsibility to find the additional $100 million.

I'm anxious to hear what our many distinguished witnesses have to say on this and other matters.

Acting Chairman DOWNEY. Our first witness is no stranger to our panel. Mary Ann Wyrsch is the Director of the Unemployment Insurance Service, Employment and Training Administration. Welcome, Ms. Wyrsch. If you would, proceed with your testimony.

STATEMENT OF MARY ANN WYRSCH, DIRECTOR, UNEMPLOYMENT INSURANCE SERVICE, EMPLOYMENT AND TRAINING ADMINISTRATION, U.S. DEPARTMENT OF LABOR, ACCOMPANIED BY JAMES MANNING, CHIEF, DIVISION OF ACTUARIAL SERVICES, UNEMPLOYMENT INSURANCE SERVICE

Ms. WYRSCH. Thank you, Mr. Chairman.

I am pleased to appear before you once again and appreciate the opportunity to discuss with you the unemployment compensation program.

I am accompanied by Jim Manning who is the Chief of the Division of Actuarial Services in the Unemployment Insurance Service. I am submitting my complete statement for the record with your permission and would like to highlight its points for you at this time.

I just want to briefly provide some framework for what is occurring in terms of workload in our program before commenting on specific issues. With the President's budget which was announced on Monday, we have the following workload and economic statistics to work with.

The total civilian unemployment rate is estimated to be 6.6 percent in 1991 and 6.7 percent in 1992, up from 5.4 percent in 1990. And the insured unemployment rate is projected to be 3.1 percent in 1991 and 3 percent in 1992, up from 2.3 percent in fiscal 1990.

The benefit outlays for our program are estimated to be $25.2 billion in 1991; $25.3 in 1992, up from $17 billion in 1990.

As evidenced by these very cursory statistics the unemployment compensation program has been experiencing a sharp increase in activity through the last 6 months or so and we expect this activity to continue through 1992. Weekly claims have jumped over 500,000 from December 1989 to December 1990.

We are monitoring this situation carefully as our program responds to the downturn, and most importantly, we expect the State employment security agencies also to respond positively and effectively as they have done in the past under similar circumstances.

You have asked me to address several issues: solvency of the unemployment compensation program, the extended benefit program, the gap between the number of individuals collecting benefits and the total number of unemployed, and the cost effectiveness of more job search assistance to the unemployed.

Briefly, let me address program solvency. The State accounts now total $40 billion and are expected to cover aggregate program outlays. The $40 billion figure represents about 2 percent of total wages in the United States, the highest such percentage since 1973. In contrast, on a State-by-State basis, the situation is somewhat different. Two States, Connecticut and Massachusetts are expected to borrow about $700 million from the loan account in the Unemployment Trust Fund during 1991. And in 1992, loans are projected to reach $1.7 billion as four additional States borrow; the District of Columbia, Michigan, Missouri and New York.

While the situation is of some concern, there are more than adequate reserves in the loan account, about $3.3 billion, to cover the expected outlays. The other accounts in the trust fund are adequately funded and solvent.

Let me speak about the extended benefit program fairly quickly. As we have indicated in previous testimony, the extended benefit program has been a feature of unemployment compensation law since 1970 and it has undergone several revisions since that time. As it exists today, it is designed to provide benefits to eligible individuals when unemployment in a State is relatively high.

In fact, extended benefits are on right now in the State of Alaska and they should be triggered on in Rhode Island later this week and based on our projections, 6 more States would trigger on to this program of 13 added weeks of benefits by the end of April. Two other States are close calls, so that we have a potential for ten States on extended benefits during this recession.

With regard to the gap between the total and insured unemployed, we have testified several times regarding this issue. Much of our testimony has dealt with the inherent nature of the UI program design, a program which provides benefits to workers with substantial labor force attachment and who have lost their job through no fault of their own. Benefits are generally not payable to those who have quit jobs, and those with little labor force attach-

ment who are reentering or entering the labor force for the first time.

In the past, we have noted that the proportion of unemployed claiming benefits was at an historic low during the first half of the 1980s when compared with the 40- to 45-percent collection rates for the 1960s and 1970s. Since early 1989, this proportion has been rising due to the increase in job "losers" among the unemployed. The average for the total of 1990 was 37 percent and it should be pointed out that in our most recent unemployment data, the month of January 1991, the collection figure is 46 percent.

In the context of rising unemployment, we note that we expect benefits receipt to continue to rise as job losers make up a larger share of the unemployed, the average duration of unemployment increases, and recipients can receive for longer durations in States with high unemployment.

We are still not satisfied that we understand the causes for the decline that occurred in the 1980s or that we have isolated the reasons for lower collection. We have the results of some recent research on behavior of the unemployed. Questions were added to the current population survey with regard to why the unemployed, who otherwise might have collected did not, and we have isolated the following reasons:

About half of those who thought they were ineligible reported that they believed that they had not worked enough to be eligible unemployed and about one-third indicated that they believed they were ineligible because they had voluntarily quit their last job.

What we have learned is that most applicants appear to know about the unemployment insurance program. Few of the individuals surveyed indicated that they were deterred from applying because it was too much hassle or because of stigma attached to the receipt of benefits. I would be glad to discuss that further in questions.

That ends my summary. I have not discussed in any detail the demonstration projects that you asked me to address, but I would be glad to do that in questions.

Thank you.

[The prepared statement follows:]

STATEMENT OF MARY ANN WYRSCH
DIRECTOR, UNEMPLOYMENT INSURANCE SERVICE
U.S. DEPARTMENT OF LABOR
BEFORE THE
SUBCOMMITTEE ON HUMAN RESOURCES
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

February 6, 1991

Mr. Chairman and Members of the Subcommittee, I am pleased to appear before you once again and appreciate the opportunity to discuss with you the unemployment compensation program.

THE OUTLOOK

Mr. Chairman, before commenting on the specific issues which you have asked me to address, I would like to provide an overview of key program data for fiscal years (FYs) 1991 and 1992. Based on the President's Budget for 1992:

- The total unemployment rate (TUR) for the civilian labor force is projected to rise from 5.4 percent in FY 1990 to 6.6 percent in FY 1991 and 6.7 percent in FY 1992.
- The insured unemployment rate (IUR) is projected to be 3.1 percent in FY 1991 and 3.0 percent in FY 1992, up from 2.3 percent in FY 1990.
- Benefit outlays for all programs are estimated at just over $25 billion in each year, an increase from outlays of about $17 billion in FY 1990.
- Beneficiaries for all programs are expected to rise from 8.3 million in FY 1990 to 11 million in FY 1991 and then fall to 10 million in FY 1992.
- The average duration of benefits for all programs is projected at slightly over 14 weeks for FYs 1991 and 1992, a moderate increase from the 13.6 week average in FY 1990.
- Revenues generated under the Federal Unemployment Tax Act and State unemployment compensation laws are expected to be nearly $21 billion in FY 1991 and $23 billion in FY 1992, compared with $21 billion in FY 1990.

As evidenced by these estimates, the unemployment compensation program will experience a sharp increase in activity through FY 1992. We are vitally aware that the recession already has put added strain on the delivery of services to claimants -- weekly claims for benefits jumped over 500 thousand from December 1989 to December 1990. We are monitoring this situation carefully as the UI program responds to the downturn. Most importantly, we expect the State employment security agencies also to respond positively and effectively as they have in the past under similar circumstances.

I will now address solvency of the unemployment compensation program, the extended benefit program, the gap between the number of individuals collecting benefits and the total number of unemployed workers, and the cost effectiveness of more intensive job search assistance.

PROGRAM SOLVENCY

The Unemployment Trust Fund is made up of 53 individual State accounts and three Federal accounts.

State accounts now total $40 billion and are sufficient to cover expected outlays in the aggregate, even though outlays are projected to exceed revenues and interest earnings in FYs 1991 and 1992. The $40 billion represents about two percent of total wages and is the highest such percentage since 1973.

In contrast, on a State-by-State basis, the situation is somewhat different. Under the Administration assumptions, two States, Connecticut and Massachusetts, are expected to borrow $700 million during FY 1991. In FY 1992, loans are projected to reach about $1.7 billion with four additional States borrowing -- the District of Columbia, Michigan, Missouri, and New York.

While this situation is of concern, there are more than adequate reserves, about $3.3 billion, in the Federal Unemployment Account (FUA) -- one of the Federal accounts -- to cover anticipated loans to these States. In most cases these loans are interest bearing which encourages prompt repayment of the loans. As always, the Department is continuing its effort to assist States on solvency issues by setting informal guidelines, implementing benefit financing models, and providing technical guidance.

Another of the Federal accounts, the Employment Security Administration Account (ESAA), is used to fund the administrative costs of the unemployment compensation program, as well as most employment service costs. This account has sufficient funds to cover expected workload-related costs.

The remaining Federal account, the Extended Unemployment Compensation Account (EUCA), provides funds for the Federal share of extended benefits. The account balance is about $7.2 billion -- its highest balance ever -- and is ample for handling expected outlays under the extended benefit (EB) program, which I will now address.

EXTENDED BENEFIT PROGRAM

As I have indicated in previous testimony, the extended benefit program was implemented on a permanent basis in 1970, and since then has undergone a number of modifications. The latest changes occurred in 1981 and were aimed at achieving effective targeting of benefits.

The program, as it exists today, is designed to provide benefits to eligible individuals when unemployment in a State is relatively high. Specifically, EB is payable in a State when the State IUR is at least 5.0 percent and is 120 percent of the average of the rates for the same period for the two prior years. Federal law permits States to provide for an optional trigger of 6 percent, waiving the 120 percent requirement; forty States have the optional trigger.

As of January 19, 1991, State IURs (for EB triggering purposes) ranged from a low of 0.92 percent in South Dakota to a high of 6.09 percent in Alaska. Extended Benefits will be payable in Alaska and Rhode Island this month. Based on Administration assumptions and a review of current claims activity, we expect 8 additional States to trigger on by the end of April. This number is smaller than in past recessions, but it reflects the lower number of exhaustions expected during this mild recession which will serve to reduce the need for extended benefits.

THE GAP

The Department has testified several times regarding this issue.

During the past five or six years, public concern has focused on the proportion of the total number of unemployed persons who collect unemployment insurance (UI) benefits. The difference between the number of individuals unemployed and those who collect unemployment benefits is often called the "gap". An important point to note is that there has always been a gap. This is due to the nature of the UI program design, which

provides benefits to workers with substantial labor force attachment who have lost their jobs involuntarily, due to no fault of their own. Benefits generally are not paid to the unemployed who quit their last job or who do not have recent work experience -- those who are entering or reentering the labor force.

The proportion of unemployed claiming benefits was at an historic low during the last half of the 1980s (approximately 32 percent during 1987-1988), when compared with the 40-45 percent figures for similar periods in the 1960s and the 1970s.

Since early 1989 the proportion of the unemployed receiving UI benefits has been rising steadily, due to an increasing number of job losers among the unemployed (as opposed to job leavers and entrants/reentrants) even though the TUR remained almost constant until July 1990. In 1990, on average about 37 percent of the unemployed claimed UI benefits.

Receipt of unemployment benefits increases during periods of higher unemployment because job losers make up a larger proportion of the unemployed, the average duration of unemployment increases, and recipients can receive longer benefit durations in States with high unemployment. Thus, the number and proportion of the unemployed who receive UI benefits is likely to increase this year over last year's levels. In fact, we would note that in January 1991 the proportion of unemployed receiving benefits increased to 46 percent.

While the proportion of the unemployed receiving benefits is rising and while we anticipate that the proportion will continue to rise during the coming months of the economic slowdown, we are not complacent about the increase in the "gap" that occurred during the 1980's. The reasons for the eight to ten percentage point decline in the proportion of the unemployed receiving benefits from the levels prevalent in the 1960s and 1970s to those of the latter half of the 1980s have not been isolated to our satisfaction. Research to date has shown that there is no single explanation for this increase in the gap. Some portions of the increase are attributable to changes in the economic structure of the nation -- employment declines in the sectors of the economy which historically have had higher UI benefit receipt levels, such as mining and manufacturing. Portions of the increase in the gap are attributable to geographic shifts in unemployment to States with historically lower receipt ratios.

Other determinants include the demographic make-up of the labor force. A recent study by the Congressional Research Service (Unemployed Workers Who Do Not Receive Unemployment Compensation: Impact and Incidence; November 15, 1990; Gene Falk) analyzed information from the Census Bureau's Survey of Income and Program Participation (SIPP). The CRS report suggests that many of the unemployed in the mid-1980s had weak job attachment and often had not accumulated a substantial work history. CRS reported that the most dominant characteristic of these unemployed was their youth, with half of <u>all</u> unemployed age 27 or younger and half of the <u>uncompensated</u> unemployed being age 25 or younger.

Another reason for the increase in the gap is that some who are eligible for UI benefits do not apply for them.

New evidence from a study recently completed by Dr. Wayne Vroman has shed preliminary light on the behavioral reasons for the unemployed not filing for benefits. The Department added questions to the Current Population Survey (conducted by the Bureau of the Census) to determine behavioral reasons for individuals not filing for UI benefits. Vroman's report, "The Decline in Unemployment Insurance Claims Activity in the 1980s" (December 1990), found that over half of the unemployed

individuals who did not file for benefits did not file because they believed that they were not eligible. Of these, about half reported that they believed that they had not worked enough to be eligible and about one-third indicated that they believed they were ineligible because they had voluntarily quit their last job. These two reasons accounted for over eight out of ten of the individuals who did not file for UI benefits because they felt they were ineligible, or over 40 percent of all the unemployed who reported they did not file for benefits.

Some of the most valuable findings of the Vroman study were in identifying potential reasons for the increase in the gap that simply did not hold up under scrutiny. Among these were "too much hassle" and "too much like charity" which combined accounted for only five percent of all persons not applying. Fewer than three percent of the nonapplicants said they did not know about the UI program. To summarize, the Vroman study observed:

- Most nonapplicants appear to know about UI so their reason for not applying is not lack of awareness;
- Few individuals say that they are deterred from applying because it is too much hassle or because of a stigma attached to the receipt of benefits;
- The most common reason for not applying (over 53 percent) is that workers do not think that they are eligible; and
- Expecting to soon have another job, (or having another job) is a common reason for not applying (14 percent), a reason quite prevalent among workers with short duration spells of unemployment.

DEMONSTRATION PROJECTS TESTING JOB SEARCH ASSISTANCE

Over the last 5 years, we have conducted a series of demonstration projects testing the effectiveness of early identification of UI recipients who are likely to exhaust their unemployment benefits and who have difficulty returning to work. These projects are testing a variety of reemployment service options to assist these UI recipients in returning to productive employment.

One of the demonstration projects -- the New Jersey UI Reemployment Demonstration Project -- tested three approaches to comprehensive job search assistance services to a target group of UI claimants who were likely to be displaced workers and who might face more difficulty in becoming reemployed. A sample of New Jersey UI claimants who met the eligibility criteria were assigned to one of three packages of services: job search assistance only; job search assistance combined with training or relocation assistance; or job search assistance combined with a cash bonus for early reemployment. The job search assistance component was intensive, consisting of an orientation session, vocational testing, a workshop on job search skills, individual assessment and counseling, and systematic follow-ups with claimants on the progress of their job search. The Employment Service provided the job search assistance services to the UI recipients selected for the demonstration.

Based on a follow-up study by Mathematica Policy Research, all three packages of services offered net benefits to society as a whole and to claimants when compared with existing services. There were savings to the Unemployment Trust Fund over the follow-up period as claimants became reemployed more rapidly. Intensive job search alone was shown to be particularly cost-effective, taking into account the costs to the government of carrying out the demonstration. Several other States have tested early intervention job search assistance for UI recipients, and they have also determined that job search assistance services can result in savings to the UI Trust Fund.

Because the comprehensive job search assistance services provided in the New Jersey demonstration are more costly than the services currently provided, one set of issues involves how best to target the different types of job search assistance services to different groups of the unemployed and to provide them more efficiently. A related issue is how to finance more intensive job search services, since savings to the UI Trust Fund from the demonstration were not alone sufficient to fund the enhanced services.

Mr. Chairman, this completes my formal statement. I will be pleased to respond to your questions.

Acting Chairman DOWNEY. Ms. Wyrsch, let me begin with where you just left off and that is the adequacy of this program. You suggested that in January it appeared as though the number who were eligible and interested in claiming unemployment benefits was increasing and that has been the case over the last couple of months?

Ms. WYRSCH. We have seen a rise in the percentage of the unemployed who actually collect unemployment insurance since 1989.

Acting Chairman DOWNEY. As I understand it, Mr. Bregger, you are going to make a statement as well, and then we will ask questions.

Why don't you begin?

STATEMENT OF JOHN E. BREGGER, ASSISTANT COMMISSIONER FOR CURRENT EMPLOYMENT ANALYSIS, BUREAU OF LABOR STATISTICS, U.S. DEPARTMENT OF LABOR, ACCOMPANIED BY SHARON BROWN, CHIEF, DIVISION OF LOCAL AREA UNEMPLOYMENT STATISTICS

Mr. BREGGER. Thank you, Mr. Chairman.

It is a distinct pleasure for me to appear before the subcommittee. I am accompanied by Sharon Brown, who is Chief of our Division of Local Area Unemployment Statistics.

I will, as Ms. Wyrsch did, just summarize my comments. My full testimony has been submitted.

I would like to run through, first of all, the current economic situation just shortly. As we know, we have had a significant increase in unemployment since June of last year when the unemployment rate was 5.3 percent. It is now up to 6.2 percent, which represents an increase of nine-tenths of 1 percentage point.

Increases have occurred across all groups, including men, whose unemployment rate went from 4.7 to 5.6 percent; women, whose rate went from 4.6 to 5.3—not 5.9 as indicated in some copies of the testimony—and then, finally, teenagers, whose rate went from 14.7 to 18.2 percent.

We have had very sizable reductions in employment over this period—declines in excess of a million since June, as measured by both of our surveys. The concentration has been mostly in manufacturing and construction. We have had declines in manufacturing totaling 900,000 over the past 2 years and, in construction, declines of about 450,000 since just last May.

But we have also seen weakness practically in every other industry, particularly in wholesale trade, retail trade, and finance, insurance and real estate. Furthermore, there has been weaknesses in the services industry which has normally been a pillar of strength in the economy.

Over this period, we have had absolutely no increase in the labor force, which is a most unusual event. I think that if we had been seeing labor force increases we would have had greater increase in the unemployment rate, as well, thus far; compare this with the last recession, 1981–82, when we had increases in the labor force in excess of a million.

Now, I know the subcommittee is very much interested in the duration of unemployment and what's happening there because it

has a significant hand in what is likely to happen to insured unemployment. Thus far, we have not had very much of an increase in the duration. The median duration has only gone from 5.2 to 5.9 weeks. That means that half the unemployed have been unemployed less than about 6 weeks. Mean duration has only gone up from 12 weeks to about 12.4 weeks.

In terms of the very long-term unemployed, persons unemployed 15 weeks and over account for only 24 percent of the total unemployed right now. And those that are in the 27-and-over group—that's the group that would typically exhaust unemployment insurance benefits—account for only 11 percent of the total unemployed at the present time.

Now, these proportions are about the same as they were at this point in the 1981–82 recession; in other words, 7 months in. I am not saying that we have dated this recession yet, but that's the timing I'm using for this purpose.

Eventually persons unemployed 15 weeks and over reached 41 percent of the total unemployed in that recession. And the very long-term unemployed, those over 27 weeks, reached 26 percent. So, as you see, we are quite a ways from what the potential might be.

I would like to touch on for just a moment the issue of measuring the total unemployment versus insured unemployment. Basically total unemployment covers all persons who are not working and have looked for work sometime in the prior 4-week period and are currently available for work. These figures are quite a bit higher, as Ms. Wyrsch indicated, than the insured unemployed, which cover only those persons who have filed claims for unemployment insurance benefits.

One of the main reasons is that the insured unemployed do not cover such groups as persons who have left their jobs voluntarily and immediately started looking for work and new entrants and reentrants to the labor force. But it is interesting what has happened to this ratio. In the late 1970s, it was running around 40 percent, that is to say, the insured unemployed accounted for about 40 percent of the total unemployed. I am excluding recession periods here when the ratios are always higher.

Then, in the mid- to late-1980s, the rates got down to the very low 30s. So, the proportion declined quite a bit. I have a table appended at the back of my statement that shows the relationship year-by-year from 1973 forward.

It has risen in 1990 and into 1991 as more and more people have become unemployed and particularly given the concentrated job losses in manufacturing and construction.

Finally, I would like to talk a little bit about our data measurement below the national level because, that becomes very relevant here, I believe, as the committee considers what figures might be used in making determinations, given the shrinking rates of insured-to-total unemployment.

We have data from the Current Population Survey—that's the source of the national statistics—for all of our States on an annual average basis. So the survey is good enough for that purpose. It also produces good enough data for 11 large States on a monthly basis and, therefore, the data for those States are the official estimates for unemployment.

But for the other 39 States and the District of Columbia, we have to use estimating techniques based on regressions. We think those estimates are pretty good, as they are based on the Current Population Survey, our survey of nonfarm unemployed, and unemployment insurance information.

Below the State level, the estimates tend to get weaker and weaker. We produced sub-State figures by what we call a handbook formula procedure. The figures can be pretty good for the large areas but when you get down to the very, very small areas—counties and other jurisdictions—we believe the reliability can be quite low.

At this point, I will be happy to answer your questions.

Acting Chairman DOWNEY. Thank you, Mr. Bregger.

[The prepared statement follows:]

STATEMENT OF
JOHN E. BREGGER
ASSISTANT COMMISSIONER FOR
CURRENT EMPLOYMENT ANALYSIS
BUREAU OF LABOR STATISTICS
U.S. DEPARTMENT OF LABOR
BEFORE THE
SUBCOMMITTEE ON HUMAN RESOURCES
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

February 6, 1991

Mr. Chairman and Members of the Subcommittee:

It is a distinct pleasure to have this opportunity to discuss current U.S. labor market developments and issues associated with measuring unemployment below the national level. As I am sure you are aware, labor market conditions have deteriorated since the middle of last year. According to both of our surveys of the labor market, employment has declined by over 1 million since June. At the same time, the number of unemployed has increased by 1.2 million and the civilian unemployment rate has risen nearly a full percentage point, reaching 6.2 percent in January.

While the current recession has affected workers in all sectors of the economy, those in manufacturing and construction have been the hardest hit. This is consistent with the pattern we have observed in each of the eight previous recessions since World War II. The number of manufacturing jobs actually began to drop at the beginning of 1989, although the pace has accelerated in recent months.

Factory job losses have totaled about 900,000 in the last 2 years, half of them in the last 5 months. Most of these declines have occurred in durable goods manufacturing, particularly in the industries that produce the nation's construction materials, metals, automobiles, machinery, and electronic equipment.

The slowdown in the nation's construction industry has been particularly sharp, as both residential and nonresidential building activity have declined. The job situation in the industry took a decided turn for the worse in the middle of last year. Since last May, employment in the industry has dropped by about 450,000.

Although employment in the manufacturing and construction industries has been the most affected, the impact of the current downturn has not been confined to those industries. Employment levels in wholesale trade, retail trade, finance, insurance, and real estate have also been trending downward. And even the services industry, which had been showing strong job growth through late last year, has shown none in the past 2 months.

Though overall employment growth had slowed as early as 1989, there was virtually no movement in unemployment until last summer. The number of unemployed persons and the rate of unemployment had remained at about 6.6 million and 5.3 percent, respectively, for nearly 2 years. This stability was due to some extent to slow labor force growth, which served to reduce the competition for available jobs. Even this slower growth, however, could not compensate for the job losses that have occurred since June. Since then, unemployment has increased among all the major worker groups. It should be noted, however, that the increase of 0.9 percentage point in the unemployment rate since June was less than the increase during the comparable period going into the 1981-82 recession, when the labor force was growing.

By January, the jobless rates for adult men and adult women had increased to 5.6 and 5.3 percent, respectively. The jobless rate for teenagers had increased by 3.5 percentage points to 18.2 percent. At 5.5 percent, the unemployment rate for whites was a full percentage point higher than in June, while the rates for blacks (12.1 percent) and Hispanics (9.3 percent) also rose.

As would be expected at the start of an economic downturn, the increase in unemployment since June has been largely due to a rising number of persons who lost jobs. The number of such persons increased by 850,000 since June and accounted for about 53 percent of total unemployment in January. The number of unemployed persons who had reentered the labor force after a period of absence also has increased somewhat since June. In contrast, the number of unemployed persons who were entering the labor force for the first time was at about the same level in January as had prevailed throughout most of 1990. The number of unemployed persons who had voluntarily left their last jobs has actually decreased since June, probably reflecting a realization among workers that now is not a good time to quit a job and look for new employment.

As the economy deteriorated during the last half of 1990, our measures of the average duration of unemployment (the number of weeks that a person has been looking for work) have lengthened. The median duration of unemployment has increased from 5.2 to 5.9 weeks between June and January, while the mean duration has risen from 12.0 to 12.4 weeks. While, as one would expect, the average duration of unemployment increases as a recession lengthens, the increase is not apparent immediately. This is because the large number of newly unemployed entering the jobless stream in the first few months after the onset of a recession tends to keep the average duration measures down. As the likelihood of finding a job declines, more of those who had been newly unemployed at the onset of the downturn move into the longer duration categories, and then we see a rise in average duration. Such an effect is just starting to be evident.

In January, the number of persons classified as "long-term" unemployed -- those looking for work for 15 weeks or more -- accounted for 24 percent of all unemployed persons. The very long-term unemployed -- who have been looking for work for 6 months or more -- made up 11 percent of the total.

These proportions are similar to those we observed during the first part of the 1981-82 recession. Eventually during the course of that long and severe recession, those unemployed 15 weeks or more came to account for 41 percent of total unemployment, while the very long-term unemployed accounted for about 26 percent. It is worth noting that these high levels were actually reached about 6 months after the recession trough of November 1982, that is, well into the ensuing economic recovery.

Thus, while we have seen some rise in the duration of unemployment since June and a small increase in the proportion of unemployed who could be characterized as long-term unemployed, we are a long way from the levels of long-term unemployment seen in the last recession. Whether we will in fact reach those levels will depend on the depth and length of the current downturn. Speculation about these topics is, as you know, outside the purview of the Bureau.

The national statistics on labor force and unemployment come from the Current Population Survey (CPS), the monthly survey of households which the Census Bureau conducts for BLS. The concept of unemployment used in the survey is explicitly defined. To be classified as unemployed, an individual in the survey must have been without a job during the reference week, made specific efforts to find employment during the 4 weeks preceding the survey, and be currently available for work. Persons on

temporary layoff are classified as unemployed even if they are not actively seeking work, as they are expected to be called back to their jobs.

Data on total unemployment in no way depend upon one's eligibility for or receipt of unemployment insurance benefits. Persons who do not file or qualify for unemployment insurance benefits, along with those who have exhausted their eligibility, are still classified as unemployed in the household survey, as long as they meet the necessary criteria.

Separate statistics on the number of persons claiming unemployment insurance benefits are collected through the administration of the unemployment insurance program. These statistics are often compared to the measure of all unemployed for the nation. In the early 1980's, the ratio of insured unemployed to total unemployed shifted dramatically. Considering all regular (State, UCFE, UCX and RRUI) unemployment insurance programs the insured-to-total ratio hovered around 40 percent in the late 70's, following the mid-decade recession. The ratio rose to 45 percent in 1980, as a result of that year's recession, and then dropped to about 38 percent in 1981-82. It reached a low of 29 percent in 1984, and subsequently hovered around 31 percent for the balance of the 80's. It rose to 37 percent in 1990, as the economy began to go into recession. (See table 1.) While researchers within and outside the Department of Labor have spent considerable time and effort in attempting to understand the changing ratio of insured-to-total unemployment, definitive answers have not been forthcoming.

Although the CPS is conducted in every State, the sample is only large enough to provide reliable monthly estimates of employment and unemployment directly for 11 large States. For the other States and the District of Columbia where the sample is too small to support the direct use of the CPS estimates on a monthly basis, data are produced using estimating equations based on regression techniques which combine current and historical data from the CPS, employment statistics from the BLS survey of nonfarm establishments, and data from the unemployment insurance system. However, on an annual average basis, the CPS is large enough to provide the official estimates of employment and unemployment for <u>all</u> States.

Over the course of the year, seasonal events such as changes in weather, annual production schedules, harvests, and holidays affect the levels of employment and unemployment. Because these seasonal events follow a more or less regular pattern each year, their influence on monthly movements can be eliminated using statistical techniques. Insofar as the seasonal adjustment is made correctly, seasonally adjusted figures provide a more useful tool with which to analyze changes in economic activity.

National measures of labor force, employment, and unemployment are routinely seasonally adjusted by the Bureau. At the State level, the labor force series for 11 large States that are obtained directly from the CPS are also seasonally adjusted. Data for the 39 other States and the District of Columbia, where monthly estimates are not sample-based, are not currently adjusted for seasonality. Research is currently underway to determine whether and how these data can be seasonally adjusted.

The State estimates of employment and unemployment are the responsibility of the Bureau's local area unemployment statistics program, which encompasses the production of monthly estimates for more than 5,000 geopolitical areas. These estimates range from States, through Metropolitan Statistical Areas, down to counties and cities of 25,000 or more population. The smaller the geographic area, the weaker the estimate, because we have less current, area-specific data to use. In fact, below the

State level we do not even have statistical tests to gauge the reliability of the computed estimates. Thus, the reliability of the local area employment and unemployment estimates is not known, but it is not deemed to be high for smaller areas.

Table 1. Total and insured unemployment compared, 1973-91

[In thousands]

	Insured unemployed[1]	Total unemployed	Ratio
1973	1,745	4,365	0.400
1974	2,382	5,156	0.462
1975	4,174	7,929	0.526
1976	3,148	7,406	0.425
1977	2,852	6,991	0.408
1978	2,463	6,202	0.397
1979	2,483	6,137	0.405
1980	3,414	7,637	0.447
1981	3,110	8,273	0.376
1982	4,130	10,678	0.387
1983	3,487	10,717	0.325
1984	2,472	8,539	0.289
1985	2,604	8,312	0.313
1986	2,648	8,237	0.321
1987	2,327	7,425	0.313
1988	2,118	6,701	0.316
1989	2,151	6,528	0.329
1990	2,525	6,874	0.367
Not seasonally adjusted:			
January 1990	2,863	7,256	0.395
January 1991	3,969	8,595	0.462

Source: Bureau of Labor Statistics

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[1] Does not include Puerto Rico or the Virgin Islands, Extended benefit or supplemental benefit programs.

Acting Chairman DOWNEY. Ms. Wyrsch, let me ask you about the reserves whether or not you think they would be adequate if we do not have a short recession as the President hopes and as some people believe but others dispute. If the recession turns out to be a little longer, will the reserves be adequate to deal with unemployment claims?

Ms. WYRSCH. We believe they will. I believe, as we testified last year, if the recession came to be anything like the recession that existed in the early 1980s where we had 9.7 percent and 9.6 percent average unemployment rates, we would probably not have sufficient reserves in the loan account. We would have a high of 21 States borrowing and we would need general revenue advances to the level of $6–$8 billion, if we had a recession that high.

However, we have not modeled anything between the current peak of the unemployment, which will peak at 6.9 percent according to the estimates, and the 1982 peak of 10.7 percent.

Acting Chairman DOWNEY. What if it didn't reach the trough of the early 1980s but let's say it was 8 percent?

Ms. WYRSCH. We've not modeled that. My suspicion would be that we would have increased borrowing and it is hard for me to tell where the break even points would be between the totals that are now in the loan account. We could provide that for you.

[The following was subsequently received:]

	Administration assumptions	Alternate scenario 1 [1]	Alternate scenario 2 [2]
TUR:			
Peak (percent)	6.9	9.0	10.7
Fiscal years 1991–92 average (percent)	6.7	7.8	9.7
Number of States borrowing	8	12	21
General revenue advances to FUA (billions)		$1.3	$8

[1] TUR increase similar to 1982 recession.
[2] 1982–83 TURs.

Acting Chairman DOWNEY. Would you, at any point, recommend additional Federal unemployment taxes if the loan fund did not have the reserves to cover the State borrowings?

Ms. WYRSCH. I'm not sure that an additional Federal unemployment tax would be the solution to the reduced reserves in the loan fund. Alternatively you might consider the size of the extended unemployment compensation account which is currently at its ceiling or projected to be at its ceiling next year. Perhaps consider interfund transfers between those accounts if the loan account proved inadequate.

Acting Chairman DOWNEY. What do you think—in the 1970s we provided up to 65 weeks of unemployment benefits—do you think that is too much, too little, the right amount? What would you say would be the appropriate amount of unemployment benefits that we would give a person who was unemployed who did not receive employment within a year, let's say?

Ms. WYRSCH. That's a fairly complex question. The 65 weeks is a figure that comes to us from 1975, I believe, in which there was not only the regular program of 26 weeks on but an additional program of extended benefits of 13 weeks, plus an added program of an additional 26 weeks, because of the unemployment levels at that time.

The so-called third tier programs tend to be added by the Congress when unemployment is at very, very high levels. The recessions in which the third tier programs have been added have been quite different and, as a matter of fact, the provisions of the so-called third tier programs have been quite different one-to-the-other.

So it is hard to say now without reference to specific levels of unemployment and so on what a possible third tier program would look like.

Acting Chairman DOWNEY. As an economic stabilizer, this system was designed to be a countercyclical tool. You don't dispute that, that it was to tide workers over during periods of unemployment and to provide money to this pool to maintain aggregate demand. That is a fairly reasonable summary, is it not, of what this program is supposed to do?

Yet, since the 1980s, isn't it also true that we are serving about 20 percent fewer workers who are unemployed and that the benefits to the unemployed as a result of taxation—we have taxed the benefits here; that's a congressional decision—and other restrictions that the States have enacted have made this less effective as a countercyclical tool than it has been in the past?

Ms. WYRSCH. That argument has been put forth by an economist with regard to the gap that you just pointed out—that we are paying less, and Mr. Bregger referred to it as well—that we are paying 28 to 30 percent in the middle 1980s as opposed to the 40 percent that we had.

I would point out to you, however, that as we have entered this recession our receipt rates are going up and we expect to be—well, maybe not at 45 percent and so on—we are moving up on average this year.

Acting Chairman DOWNEY. That's great, but that doesn't answer the question.

Ms. WYRSCH. So the program's effectiveness as a countercyclical tool, as we enter into this downturn in the business cycle, is better than it was in nonrecessionary times. So I think it is moving back up towards the role that it was intended to play.

Acting Chairman DOWNEY. Is it as good as it was in the past?

Ms. WYRSCH. Well, 37 percent is not 40 percent in terms of——

Acting Chairman DOWNEY. Or 50 percent. What should the figure be? What do you think the figure should be for people who are unemployed? What percentage of the unemployed—in your mind, to make this an effective countercyclical tool—should receive unemployment benefits? Is it three-fourths, two-thirds, or one-half?

Ms. WYRSCH. Jim is pointing out to me a fact that I would like to emphasize again. I am repeating myself but our population currently, as the unemployment insurance program is designed, are people who are out of work through no fault of their own—typically the job losers.

In the last 2–3 months the job losers have hovered around 50 percent and now the are over 50 percent of the total unemployed. That is the population the program is designed to serve and our percentage of service has increased significantly. So my basic point is that we are serving the persons that the basic program is intended to serve.

The question goes to possibly what kind of extended or special programs you would have in periods of high unemployment.

Acting Chairman DOWNEY. No, let me focus a little more. You said in your own survey that half, or you believe that half believe they are not eligible. So if half believe they are not eligible, what percentage of that half that don't believe they are eligible are actually eligible?

Ms. WYRSCH. The researchers were not able to isolate that. The perception of the people surveyed is that they were not eligible for two specific reasons. They felt that they had not worked long enough, that is, that they did not have enough income. What we were not able to determine with any certainty, according to the researchers, was the correctness of the individual perception.

Acting Chairman DOWNEY. OK. So it is conceivable that a sizable percentage of these people who do not think they are eligible, are eligible, is that a fair assumption?

Ms. WYRSCH. It's a possibility.

Acting Chairman DOWNEY. And what do we do to explain to the people who think they are not eligible that they might be eligible and does this vary from State to State?

Ms. WYRSCH. Certainly there would be State variations. But as people come in the time is taken with them to talk to them about their eligibility either in weeks or——

Acting Chairman DOWNEY. And you are satisfied that what we have out there is adequate to explain to people who perceive that they are not eligible that they are these benefits and these programs that are available for them?

Ms. WYRSCH. I would hesitate to say that we are ever satisfied in terms of whether we are doing everything we can to provide optimum service. I think States are doing yeoman service in terms of dealing with the unemployed. However, the researcher did indicate that what he had measured was the individual's perception. We may need to do further research or encourage further research into whether those perceptions were correct. We certainly have an indicator kind of——

Acting Chairman DOWNEY. Let me just ask you quickly about the New Jersey—I have other questions but I want my colleagues to ask their questions. The research that was done that showed that intensive job search, I think it was in New Jersey——

Ms. WYRSCH. Yes.

Acting Chairman DOWNEY [continuing]. That was done by the Department of Labor. It indicated that this was a cost effective tool to get people back to work. Is that an adequate restatement of the findings of that proposal?

Ms. WYRSCH. Yes, it is.

Acting Chairman DOWNEY. Do we anticipate then that intensive job search, additional money for intensive job search, will be one of your recommendations to change this program?

Ms. WYRSCH. No. We have finished up the program about 2 years ago and then had followup surveys of the population that had been in training. What we have done is extensively disseminate the New Jersey model. We have technical assistance guides. We have talked about it. We have had workshops on it. Some States have picked up elements of the New Jersey model. But it did not result in a decision to replicate it through our entire system.

Acting Chairman DOWNEY. Why not?

Ms. WYRSCH. The program was done with Federal funds, it was not done with the State funds. What we hoped to show was that there was the possibility of achieving these gains with the kinds of coordination that we did by imposing ourselves on the State of New Jersey. The result of that—and it is something we do often—is then take the model and show, say to our State partners, this worked; think about it, and think about replicating it.

Acting Chairman DOWNEY. Well, I'm confused here. We pay for a study in a State that tells us that intensive job search saves us money and is good for the workers who participate and then we leave it to the States to determine whether or not they want to pick it up? What do we spend the money for?

Ms. WYRSCH. We provide the States administrative grants in terms of their unemployment insurance program but at the same time the New Jersey results were coming out, we had passed the amendments to the Job Training Partnership Act that resulted in the Economic Dislocation Worker Adjustment Assistance Act, or EDWAAA which contemplated a major role for the unemployment insurance system in service delivery to dislocated workers through interaction with State job training coordinating councils which foster coordination between the systems. In the training and employment services and employability development stream of programs that come from the Employment Training Administration we have emphasized over and over again the role of the unemployment insurance system in early identification of the dislocated workers and income maintenance as the workers are going through training, and referral and tracking of assistance to the other programs.

The unemployment insurance program assistance that was just demonstrated in New Jersey did not have the unemployment insurance system doing the job search assistance, rather the employment service and the Job Training Partnership Act grantees were actually performing those services.

Acting Chairman DOWNEY. Well, have there been increases in EDWAAA to do this job search?

Ms. WYRSCH. Well, not particularly job search. EDWAAA has been increased by over $100 million.

Acting Chairman DOWNEY. I know it has been increased in part because we insisted on its being increased because of dislocated workers as a result of the Clean Air Act, so I don't think you want to claim that EDWAAA has been increased for any reason other than the Congress beating you over the head, suggesting that if it was not increased that there would be serious problems here.

This, I find, I want you to know very troubling. That we spend the money to find out a program works and then decide not to do it or implement or to have it be implemented through the auspices of

another program and they don't get additional money for it. I mean why we pay for things that tell us what works and then not do them is very, very troubling to me.

The gentleman from Florida is recognized.

Mr. SHAW. Ms. Wyrsch.

Ms. WYRSCH. Yes, sir?

Mr. SHAW. I would like to ask you a question with regard to the State administrative reimbursements. Where do you estimate the shortfall in this particular fund to be?

Ms. WYRSCH. As the budget reflected that came out Monday, we estimate about a $100 million shortfall in the funds available for administrative financing of the system.

Mr. SHAW. It has been estimated that this figure is as high as $200,000. Do you——

Ms. WYRSCH. $200 million, excuse me.

Mr. SHAW. Excuse me, $200 million. Can you explain the differences in the estimates that are being made?

Ms. WYRSCH. I don't think there's a difference. Let me address that for just a moment.

With the new economic assumptions that accompanied the President's budget, those assumptions with the 3.1 percent insured unemployment rate, assume an additional need in administrative funding of $200 million. The administration proposes to put forth a supplemental for $100 million of that amount, leaving a shortfall of another $100 million.

Mr. SHAW. Would this shortfall be absorbed by the States?

Ms. WYRSCH. It will be absorbed by the States. There are several ameliorating factors, if you will, that we hope will make it easier for the States to address this issue. From the 1990–91 program year, fiscal years, States carried in about $50 million additional funding over amounts they normally carry in. So they carried in from 1 year to the next about $100 million of which $50 million is considered normal and the other $50 million is excess. In addition, a number of States have hiring freezes on and haven't been able to hire. So that they may not be able to use the money if it were there.

And if States are not in either one of those situations they are going to have to accommodate; they are going to have to make changes in their practices and so on to deal with the consequences.

Mr. SHAW. Let me, Mr. Bregger, I am looking at your table 1 on the back on page 9 of your testimony. If I am reading this correctly, in looking at the insured unemployment and comparing it to the total unemployment from 1989 to 1990, it appears to me that insured unemployment has increased by roughly 400,000. If you compare that figure to total unemployment it would appear that uninsured employment has actually decreased.

Is that correct or am I reading those figures right?

Mr. BREGGER. Well, clearly you are reading it correctly, that the insured unemployment increased during that period proportionately more than total unemployment did. That's about all I would be prepared to say.

Mr. SHAW. Insured unemployment is part of the total unemployment, isn't it?

Mr. BREGGER. Yes, but we don't measure unemployment according to how many people who are unemployed are insured and how many are not in terms of the official figures. We just find out how many people are looking for work and the reasons that they use to look for work.

The insured unemployed were mostly job losers, of course, and that is one of the pieces of the total. The implication is that the job loser component went up and that some of the other components might have gone down, yes.

Mr. SHAW. Could you——

Mr. BREGGER. I see I am confusing you.

Mr. SHAW. Yes. Well, I started out that way and you left me there. [Laughter.]

Mr. BREGGER. That is what oftentimes happens with statistics, sir.

Mr. SHAW. Let me ask you both a question then, what changes do you see in the law that we might possibly implement to encourage people to go back to work who are unemployed?

Ms. WYRSCH. I don't necessarily think that there is any relationship—to go back to work, to encourage people to go back to work.

Mr. SHAW. Yes.

Ms. WYRSCH. I think that our present structure probably addresses that to a great extent in that most State laws require some aspect of work search, one State does not, but most State laws do. In order to continue to receive benefits you have to show that you are continuing to look for work and that you are able and available for work in order to continue to receive benefits.

So it is not clear to me that there is any remedy or program needed to address the continued availability for work.

Mr. SHAW. Perhaps the next panel would be the best to address this to, but the question is, should there be required training for the unemployed?

Ms. WYRSCH. I can address that to some extent. Many of the unemployed are job-ready. They are out of work through no fault of their own, some for cyclical reasons. They are ready to go back to a job and many do. There is a small proportion of the unemployed that are dislocated. They will not go back to their jobs. We have had some research on exhaustees that showed us some of the people who exhaust unemployment tend to be older, and less skilled and are not going to go back to their previous jobs. There is a mixture of population in there.

This goes to Congressman Downey's point, perhaps those persons need extra assistance in terms of job search assistance to assist them in going back to work. A number of our States have picked up parts of the New Jersey model; they are trying that. Three States—Nevada, Massachusetts, and Minnesota—have programs where they are giving intensive job search assistance to certain parts of the UI population to get them back to work.

We issued a publication several months ago on reemployment services to the unemployed that talks about a whole range of things that are available. So it's not something that has gone unaddressed in our system and I don't think that we should leave the impression that it has.

Mr. BREGGER. Excuse me, Congressman Shaw, going back to your previous question, as I look at the numbers closely, the increase that has occurred in both the insured and the total has been about the same. So what this means is that a much greater proportion, as the figures show, of the total unemployed were filing for unemployment insurance benefits.

Mr. SHAW. Sure, yes, thank you.

Acting Chairman DOWNEY. Mr. McDermott.

Mr. MCDERMOTT. Thank you, Mr. Chairman.

We started this morning by going to a breakfast about the free trade agreement with Mexico. And coming from a State where we have dealt with log export bans I am curious about the administration's decision to zero out the extended benefits under trade adjustment assistance.

Can you explain what the thinking behind this proposal is? I mean presently people are eligible for as much as 78 weeks. And suddenly the administration comes out and says, we are going to totally wipe this program out. At the same time we are looking at signing a free trade agreement with Mexico where they make $1 an hour as opposed to making $8 or $9 an hour in this country.

So I am curious about the thinking behind that kind of recommendation. Is there some other plan by which they intend to take care of these people? It seems like a strange move to make.

Ms. WYRSCH. I can't speak to the relationship of the proposal to the current trade talks, although I spoke to a UAW group yesterday and it is the case that the present program is related to a Trade Act passed in the 1970s.

The administration's rationale is that the population currently served under the trade adjustment assistance program can be served under the Economic Dislocated Worker Adjustment Assistant Act, the EDWAAA, the title III of the Job Training Partnership Act program that also is run by the Department of Labor.

Currently and the latest figures are about 60,000 individuals certified under the program of which 20,000 or less—19,500—collect benefits and are in training. Of the people who collect benefits, 18,000 are in training which reflects the amendments to the program that were passed in 1988, the Omnibus Competitiveness and Trade Act. The notion, the repeal of the trade program, goes along with the administration's position that training for the next job is the best economic recovery for an individual. And that training that is inherent in the trade program can be accomplished under our present title III program and that the trade program as it currently exists is no longer necessary.

Mr. MCDERMOTT. So you are wiping out what you call a duplicative program. You have two programs that serve the same people.

Ms. WYRSCH. Services can be made available, right.

Mr. MCDERMOTT. Is there anybody who has drawn benefits from both programs?

Ms. WYRSCH. I would not know that. That may be possible, but I'm not sure.

Mr. MCDERMOTT. Is there any cap on title III?

Ms. WYRSCH. The current appropriation in terms of—cap in terms of dollars and its appropriation or in terms——

Mr. McDERMOTT. Numbers of people who could be eligible and paid for.

Ms. WYRSCH. The cap is currently related to this appropriation, which serves about 250,000 or 260,000 people.

Mr. McDERMOTT. So it is not an entitlement?

Ms. WYRSCH. It is not an entitlement.

Mr. McDERMOTT. It is something that we do as long as the money is available, and when the money runs out, tough luck.

Ms. WYRSCH. Well, the case is that it does not carry the entitlement feature of the current Trade Act, that is correct.

Mr. McDERMOTT. Thank you, Mr. Chairman.

Acting Chairman DOWNEY. Mr. Levin.

Mr. LEVIN. Thank you. Welcome. I think we all realize you are a civil servant. You do not make the policy in every case, but let me ask you some questions, and go as far as you can.

It says on page 2, "Most importantly, we expect the State employment security agencies also to respond positively and effectively as they have in the past under similar circumstances." How much money is there in the administrative account, more or less?

Ms. WYRSCH. Just about $2 billion—oh, in the administrative account?

Mr. LEVIN. Yes.

Ms. WYRSCH. I believe it depends on when you are looking at it. I have to find the right page here, Congressman.

Mr. LEVIN. It is over $1 billion, isn't it?

Ms. WYRSCH. The ceiling in the account is $1.2 billion, and at the end of 1991, we will be at the ceiling. So there is $1 billion in the account.

Mr. LEVIN. All right, so there is about $1 billion, and States are operating with a shortfall of $100 million plus. How does anyone conceivably justify, when employers pay in and there are adequate moneys, that they are not allocated to the States?

Ms. WYRSCH. As we have noted before, when the moneys are appropriated out of the trust fund through trust fund transfer, they show up as outlays in the Federal budget. And thus, this program, although it is funded from employer taxes, is constrained by all of the aspects of the deficit reduction efforts of the last 2 or 3 years and the current deficit reduction effort, and the rules of the Budget Enforcement Act. So Federal outlays are constrained. These moneys do show up as Federal outlays.

Mr. LEVIN. In simple English, the money is there, but if it is spent for the purposes for which the moneys were raised, it would increase the deficit, so the moneys are not allocated. Isn't that essentially it?

Ms. WYRSCH. It would contribute to the deficit and there is not considered room enough to allocate the full need in terms of the caps on discretionary spending.

Mr. LEVIN. Well, it is said here in your testimony that it is expected the States will respond positively and effectively. There is the shortfall, the testimony from the Governor's Association that will be forthcoming. The caption on page 2 is "Proper and efficient" administration is not a possibility amidst rising unemployment.

You say the Federal Government expects the States to respond positively and effectively. But it is the Federal Government that has the money and it does not release it. Now I know you are not making the policy, but I just think everybody ought to understand that somebody is talking out of both sides of their mouth, somebody—not you. It is the Federal Government that has the dough.

Now, under the budget request, no emergency is being declared. And it means that if it is not, that the $100 million in the supplemental has to come from some other program, right?

Ms. WYRSCH. That is true. Our position right now, Congressman, is that there is room in the discretionary cap, as we have negotiated with OMB and as they took a look at the cap figures and so on. They believe that there is room in the current cap for this $100 million supplemental. On the chance that there is not, if discussions with the Congressional Budget Office prove that there may not be, that there has been some misestimate, we have a proposal for an offset in the budget. The offset is proposed to come from the summer youth program.

Mr. LEVIN. From the what?

Ms. WYRSCH. The summer youth program, under title II of the Job Training——

Mr. LEVIN. All right, just so everybody is clear—so the proposal is if there is not money within the cap, we are going to take money from summer youth programs and put them into administrative services for the States to positively and effectively carry out their programs?

Ms. WYRSCH. Yes.

Mr. LEVIN. Robbing Peter to pay Paul, to put it mildly. Are summer youth programs working?

Ms. WYRSCH. Yes, sir.

Mr. LEVIN. OK, I do not mean to be unfair to you. I just want your honest answer.

Ms. WYRSCH. We have excess carryover from last year, which is available for this year. It would be put into programs this year. And it is that amount of money that is the potential offset. If there isn't the cap—I mean, it is proposed in the budget. It is mentioned in the President's budget. But we are forced into that, as we have discussed before, by the zero sum game that the Budget Enforcement Act——

Mr. LEVIN. No, no, no, no. But the President can declare an emergency and that is over, right? So there is no zero sum game unless the President wants there to be; isn't that true?

Ms. WYRSCH. If it were designated an emergency, you are correct. We would not have to seek the offset.

Mr. LEVIN. OK. Mr. Chairman, if I might have 30 seconds to follow in your question about the New Jersey experiment, just 30 seconds?

Acting Chairman DOWNEY. I would be happy to yield to the gentleman the additional time. But I would just like to observe here the gentleman's line of inquiry with respect to the ceiling is that in 1991 and in 1992, on these particular accounts of $1.25 billion and $1.32 billion, the administration can request this money for administration, and it is there. They choose not to do so to keep this account obviously large enough for other purposes, either to offset

the deficit or for some other reason. So as the gentleman has suggested in his line of inquiry, the money is there to do the proper job of administration. It has just not been requested.

Mr. LEVIN. And it is the President or Mr. Darman who should answer people in a number of States who call for 4 hours and cannot get through to an unemployment office, or wait 5 weeks for their checks when they were laid off through no fault of their own.

Just a quick question, because Mr. Chairman, I think your line of inquiry on job search is so cogent. Talking about talking out of both sides of their mouth about the value of work, and job search is helping people get back to work. You referred to the employment service offices and their role in this. What is the number of employment service offices today in this country compared to 5 years ago?

Ms. WYRSCH. That data are not available, Congressman. We don't keep that data. I think that there are estimates made by the Interstate Conference of Employment Security Agencies, but I do not have that. We could ask them——

Mr. LEVIN. Has there been a drop, a diminution, in the number?

Ms. WYRSCH. I believe that the General Accounting Office reported several years ago that there had been—there were a number closed, but also a similar amount opened. So there hasn't been that much of a change in terms of employment services; but I would like to check on that data. I do not have that specifically here.

Mr. LEVIN. OK. Thank you.

Acting Chairman DOWNEY. Thank you, Mr. Levin.

Mr. Grandy.

Mr. GRANDY. Thank you, Mr. Chairman. Ms. Wyrsch, I was reading over your testimony and forgive me if I am asking you a question you have already answered, because I did arrive late. But I am struck by this CRS study on page 7 of your testimony in which you are talking about the demographic makeup of the unemployed and the uncompensated unemployed.

You say half of all unemployed are age 27 and younger and half of the uncompensated unemployed are 25 or younger. So am I correct in assuming that young workers make up a disproportionate amount of the gap then, who do not collect the benefits?

Ms. WYRSCH. The CRS study used a different data base. They used a survey of income and program participation which is a little different from data that we have used in other research. But it does point you to a basic fact, which is that a number of the uncovered unemployed are younger with less job attachment. They are not heads of households. They are not the same kind of worker who is usually considered a job loser, has been employed a long time and so on. And I think the BLS data show that as well.

Mr. GRANDY. Are they—and this would go to your testimony, Mr. Bregger—what proportion are younger workers of the long-term unemployed and very long-term unemployed, as in page 4 of your testimony?

Mr. BREGGER. You mean youth?

Mr. GRANDY. Yes, 25, 27 and younger.

Mr. BREGGER. I have some figures here. I can look it up.

Mr. GRANDY. Well, you know, I do not want to make too big a deal out of the behavior of the unemployed. But there is no ques-

tion, if you look at the Department of Labor's statistics and you believe what you are talking about that this is a statistic that we are going to be dealing with for some time; more unemployed youth, probably undertrained. How are you getting the message to these people that they are eligible for benefits?

Ms. WYRSCH. Well, the point, Congressman, is they probably are not eligible for benefits. Due to their youth, they do not have either long work histories or long-term work histories. They may have tended to go in and out of the labor force. And as a general rule, people who are not attached to the labor force, have not worked for a period of time, new entrants or reentrants are a population which are not covered by unemployment insurance because of the attachment requirement.

Mr. GRANDY. Are you saying then that a lot of these young people are probably one, not qualified, but two, not looking for unemployment benefits because they think they are between jobs and may not bother to file. You mentioned in your testimony here that hassle and feelings about charity might enter into it. I think these would probably be greater in certain regions of the country. But also you have to take into consideration that very often our young people are a lot more mobile. They might be leaving one area of the country to go to another to look for work. Have you got any kind of demographic information on that?

Mr. BREGGER. It is quite true, Mr. Congressman, the younger people, one, are less likely to be long-term unemployed. They will either find another job or they will drop out of the labor force for awhile. The longer-term unemployed tend to be the older, more stable workers. And it is also true that the young are mobile; they do more moving for jobs in other parts of the State or country, as the case may be, than older workers. And of course, they are less likely to be married and settled. They typically do not have any work credits to speak of, so they would not be eligible for unemployment insurance in the first place, for the most part.

Mr. GRANDY. Well, what I am trying to ascertain is to what extent did young people define this gap that we have been talking about? They seem to be a somewhat different population demographically in terms of their work priorities, in terms of their situation in life, if you will. Are they a factor in this particular calculation that perhaps should not be considered as heavily as the older worker, the person that might be structurally unemployed? Are they skewing the statistics to any degree?

Mr. BREGGER. I do not believe we have had any dramatic change in the youth over the years that would explain why the gap that you are referring to, the insured to total unemployment ratio, has gone down. I think that is more of a function of other issues, such as that we have had marked declines in manufacturing employment. These are workers who are more likely to apply for unemployment benefits.

I mean, the proportion of manufacturing of the total employed in this country has gone down markedly.

Mr. GRANDY. As has mining.

Mr. BREGGER. As has mining.

Mr. GRANDY. As has agriculture.

Mr. BREGGER. As has agriculture. And these people who are unemployed from what we call goods-producing industries are the types of people who would be more likely to file for benefits. Greater and greater proportions of workers are in the services area; and you lose a job there, there is more likely to be another job available, in general. Also, it depends on the parts of the country; people are more likely to file for benefits, I think, in the Northeast and North Central parts. But proportionately more of the unemployed are now in the south or west.

Ms. WYRSCH. I think it would be helpful to understand that the gap we have been talking about is an 8 to 10 percentage point gap between the collection rates in the 1960s and 1970s—40, 45 percent—and the collection rates in the early 1980s——

Mr. GRANDY. Yes.

Ms. WYRSCH [continuing]. About 30 percent. If you consider youth in relation to 100 percent of the unemployed, the unemployment insurance program does not serve 100 percent of the unemployed. And of the people that have not been covered for some time, the youth would make up a—in terms of reentrants or new entrants—would make up a proportion of those. I mean, just to make the distinction between the 8 to 10 percent gap that we are talking about and the gap between 40 percent and 100 percent; if that helps you at all.

Mr. GRANDY. OK. I have no further questions, Mr. Chairman. Thank you.

Acting Chairman DOWNEY. Mr. Moody.

Mr. MOODY. Thank you. Ms. Wyrsch, I see that on the first and second page of your testimony that benefit outlays will go up about $8 billion a year. Then on page 2, revenues will also go up $2 billion a year, it looks like, from $21 to $23 billion. Why would revenues go up in a period when you are expecting increased outlays? Why would they also go up?

Ms. WYRSCH. I will let my actuary answer that question. Essentially, you will not see a decrease in the revenues.

Mr. MOODY. Even though more people are becoming unemployed, we will see an increase——

Ms. WYRSCH. For a while. There is a timelag there.

Mr. MANNING. Normally what happens with the experience rating taxes that are in effect in the States, as the trust funds begin to go down, additional taxes are triggered into the States, and they will get more taxes from the different employers.

Mr. MOODY. You mean tax rates go up—I am new to this committee. I do not know all the background. Tax rates go up as unemployment increases?

Mr. MANNING. There are tax schedules in most of the States that as the trust fund goes down, you will trigger in higher tax rate schedules, and so employers will be paying higher taxes. Normally——

Mr. MOODY. Which is procyclical rather than countercyclical?

Mr. MANNING. Well normally this occurs over about a 3-year period, so you will see a very slight increase in the first year and in the second and third years, you will see more of an increase.

Mr. MOODY. So if the recession is longer and deeper, it sort of gets longer and deeper slightly more still, because of the increased revenue drain?

Mr. MANNING. That can occur. Normally what has happened in the past is that we have seen recessions somewhere in the neighborhood of 18 months. Most tax rate schedules as they work, there is a computation date of June that looks at the 12 months prior to June and then puts taxes into effect the following January. Much of that is built in, so it should be countercyclical.

Mr. MOODY. So if the recession is long lived, then in the early phases, the UC system is countercyclical. But in the late phases, it actually may be slightly procyclical?

Mr. MANNING. That's possible.

Mr. MOODY. Let me now ask the main witness about our New Jersey experiment. Your statement says that the New Jersey demonstration is more costly than services currently provided, yet earlier it says they are beneficial on a net basis, both in terms of ultimate revenue yields because of the fact that these people do get work. What do you mean by more costly if, in fact, it is cost effective—on a net basis, it is less costly; is it not?

Ms. WYRSCH. There were several measures of cost effectiveness. Essentially, as with a number of those kinds of exercises, we measured the cost to society and the net benefit to society, net benefit to claimant, then the benefit, and the cost effectiveness, to the Government.

Mr. MOODY. Right.

Ms. WYRSCH. It turns out that the job search assistance alone, just the intensive job search assistance, proved to be the only one that was cost effective to the Government and so on. The other two did not pay the Government's costs.

Mr. MOODY. Right. They may pay society, but not necessarily the Government.

Ms. WYRSCH. That is right. And so the other two treatments, which were job search assistance with bonuses and job search assistance plus training, did not prove to be cost effective to the Government.

Mr. MOODY. They paid for themselves to society, but not to the Government. But the first one paid for itself to the Government, as well?

Ms. WYRSCH. Yes, it did. It turned out to be.

Mr. MOODY. So the words "more costly" really would not be more costly——

Ms. WYRSCH. No, that refers to all of them. It refers to the entire——

Mr. MOODY. But if you break them out and look at them individually, the intensive job search, per se, is a less costly intervention than current services, right?

Ms. WYRSCH. It would pay for it.

Mr. MOODY. An important caveat on that statement of "more costly." It seems to me that indicates that as a minimum, we should be doing that, since that is a win-win-win prospect.

The second, other, part of your statement on page 10, "Savings to the UI trust fund for the demonstration projects—demonstrations were not alone sufficient to fund these enhanced services." Well, if

at least one of them—if you do not take them in aggregate and do all three—but if you just take the one that is the most cost effective, that is, the win-win-win, why would the insufficiency of funds not be a constraint and say would actually return funds on a net basis?

Ms. WYRSCH. To the trust fund?

Mr. MOODY. Yes.

Ms. WYRSCH. Well, the savings are from less benefits being paid out. The persons go back to work early.

Mr. MOODY. Right.

Ms. WYRSCH. So they did prove cost effective relative to trust fund savings. I think they were talking about all three of them again.

Mr. MOODY. Right. But I mean, it is not all three or nothing? I mean, we are not required—neither Congress nor the administration—required to implement all three. We can pick out the one that works the best. Why would an insufficiency of funds be a constraint on that one, since it pays for itself, even in terms of Government revenues. Why would there be a solvency constraint if it yields net revenues?

Ms. WYRSCH. I think that the way to look at it is not a solvency constraint on the unemployment trust fund, per se, in terms of the solvency of the State benefits, but that all three of them did not return——

Mr. MOODY. Well, no, if you do all three. I am asking if you do the one that is a pure winner. Why would the statement—a related issue—I am quoting from your statement—"A related issue is how to finance more intensive job search services since saving to the UI trust fund from the demonstration——

Ms. WYRSCH. Oh, I'm sorry, Congressman.

Mr. MOODY [continuing]. "Was not alone sufficient to fund the enhanced services." If you pick out the one that is a win-win-win, a triple winner, why——

Ms. WYRSCH. I think the one treatment would not be covered by that statement. You are right. If it stood alone, it would not be covered.

Mr. MOODY. Well, Mr. Chairman, this is a pretty important exception to the statement. I mean, if you have got a demonstration that shows that at least one of them—if all of them pay for themselves, global effects—if one of them even pays for itself in terms of fund balances, then you have a statement here saying the fund balances are insufficient to do this, it flies in the face of what you were saying earlier in your own statement. You would agree?

Ms. WYRSCH. Yes, sir.

Mr. MOODY. Thank you.

Acting Chairman DOWNEY. There are a number of troubling ironies involved in this.

The gentleman from Texas.

Mr. ANDREWS. Thank you, Mr. Chairman. I would just like to ask you about the way servicemen are treated in their unemployment benefits. As I understand it, they receive 13 weeks of unemployment benefits instead of 26 weeks, and they additionally have to wait 3 weeks longer than everybody else to receive their benefits.

Ms. WYRSCH. That is right.

Mr. ANDREWS. Will you explain to me why that is so? What caused that inequity?

Ms. WYRSCH. Congress changed the unemployment compensation for ex-servicemen program, called the UCX program.

Mr. ANDREWS. In 1982?

Ms. WYRSCH. In 1982, right, after having changed it a little bit earlier. The earlier changes, as I understand it, were related to the creation of the all-voluntary services, and had to do with whether you could receive unemployment if you did not re-up. That was done away with. But notions of the added options that service members might have because they were voluntarily leaving the service or had had some previous history and so on, resulted in less weeks and a wait.

It is the case that there have been proposals since then to make that program more like the regular programs, but none of them have——

Mr. ANDREWS. Well, Mr. Downey's bill included a provision like that last year.

Ms. WYRSCH. That is right.

Mr. ANDREWS. Did you oppose that? The administration opposed that provision?

Ms. WYRSCH. We did oppose that. I will tell you that recently we have put forward in the Department of Labor a proposal to OMB for a legislative change that would do exactly what Congressman Downey's bill——

Mr. ANDREWS. Well, why is it not in the President's budget then?

Ms. WYRSCH. It is a timing issue. We are not——

Mr. ANDREWS. I'm sorry?

Ms. WYRSCH. It is a timing issue. It did not get into the legislative package.

Mr. ANDREWS. It is a timely issue?

Ms. WYRSCH. Timing issue.

Mr. ANDREWS. Timing issue.

Ms. WYRSCH. Timing issue. And we are just proposing it to OMB now and we have not——

Mr. ANDREWS. You mean, as we speak?

Ms. WYRSCH. Well, it is in consideration in the Department of Labor.

Mr. ANDREWS. It is in consideration, or you are proposing it?

Ms. WYRSCH. We are proposing it. It has not gone forward—and OMB has not approved it. As I understand it, there is even a proposal in the Senate right now to do the very same thing with Senator McCain's bill. So there is lots of interest in the same issue.

Mr. ANDREWS. Well, but there is not interest at the White House? I mean, is that why it was not included?

Ms. WYRSCH. The administration does not have a formal proposal out at this time; you are correct.

Mr. ANDREWS. What is your judgment? Do you anticipate that the administration will support such a proposal?

Ms. WYRSCH. It is my sense that they would, although I do not have the official word on that.

Mr. ANDREWS. All right. And then if this committee were to produce legislation similar to what Mr. Downey's bill was last year that included such a proposal, you would support that proposal?

Ms. WYRSCH. It is my sense that that would be the case.

Mr. ANDREWS. It is your sense?

Ms. WYRSCH. I do not have the piece of paper that says—or I am not carrying the official OMB stamp is what I am telling you. My sense is that it would be approved.

Mr. ANDREWS. Well, what about the Department of Labor?

Ms. WYRSCH. You have the Department of Labor's approval.

Mr. ANDREWS. Thank you.

Acting Chairman DOWNEY. I thank the gentleman for his line of inquiry. I have some additional questions, and I see Mr. Grandy seeks recognition for some of his. Well, we will not leave you waiting. We will be introducing legislation that extends the unemployment benefits for servicemen. I am sure this has nothing to do with Desert Storm raging now, but just a review of your policy.

I want to ask you how we would explain to people who are unemployed, whose 26 weeks runs out, that there are now—there is one State, the State of Alaska—and you say that there may be another State?

Ms. WYRSCH. We expect Rhode Island to trigger——

Acting Chairman DOWNEY. Rhode Island. I think it is fair to say not two of our—certainly in geography, Alaska is one of our big ones. And then of course, Rhode Island is one of our small ones, geographically.

Mr. ANDREWS. Very impressive, Mr. Chairman. [Laughter.]

Acting Chairman DOWNEY. But in terms of population, they are not what we would call our big States. At the end of fiscal year 1991, there is estimated to be $8.42 billion in the extended benefits account. We anticipate that there will be $8.7 billion in the extended benefits account in 1992. How do we say to somebody, "Well, you know, we have these billions of dollars, but now that your 26 weeks has run out in your State there is not a 5 percent insured unemployment rate, so you are not eligible?" Does not this scream out for reform of this system so that we can extend unemployment benefits beyond the 26 weeks to people who have exhausted their benefits?

Ms. WYRSCH. I do not know that there is a connection between the level of dollars in the Federal account——

Acting Chairman DOWNEY. Well how much—let me ask you this question—how much do we anticipate taking of this $8.42 billion—how much of it do we intend to use for the States, the States of Rhode Island and Alaska and the others, how much of it do we expect to take out of this account?

Ms. WYRSCH. As I told you, we expect 10 States trigger on this year.

Acting Chairman DOWNEY. Right.

Ms. WYRSCH. And our proportion of that will be $140 million in 1991. That is the Federal share.

Acting Chairman DOWNEY. Just the Federal share, right, so it is twice that?

Ms. WYRSCH. Yes, it is $280 million.

Acting Chairman DOWNEY. $200 million.

Ms. WYRSCH. $280 million.

Acting Chairman DOWNEY. Yes, which would leave us $8.2 billion in the account. You said before that I was confusing it. What am I

confusing? We have a lot of people who are running out of unemployment benefits at 26 weeks, and we have a lot of money in an account that is there to take care of people who are unemployed beyond 26 weeks.

Ms. WYRSCH. That is true. My point was that the program as it is now structured is designed to deal with the 5 percent trigger in a State, and that is the current measure of high unemployment. The existence of money in an account would not be the sole reason that you might want to address either changing the trigger or——

Acting Chairman DOWNEY. Well, let me ask you about changing the trigger. Would the Department of Labor be amenable to our completely revamping the 5 percent insured employment rate trigger so that we could figure out a way to get some of these benefits in a more timely fashion to the States? It does not seem, in the middle of a recession, that 10 States triggering onto extended benefits is adequate to deal with the problem.

Ms. WYRSCH. Congressman, we would be willing to work with you on whatever proposals you would like to work on in terms of the actuarial analysis and so on. The administration has taken a position on the current——

Acting Chairman DOWNEY. But they are for it.

Ms. WYRSCH. That the trigger is adequate.

Acting Chairman DOWNEY. Let me just tell you. We are—I am not beating around the bush here. We have attempted the last 2 years to do a number of things that you have suggested to us today now that the administration supports; for instance, the military benefits going from 13 to 26 weeks, which I think we all admit needs to be changed and will be changed this year.

We need to, in my view, examine the extended benefits program because it is simply not working. It is not getting to the people that need it. And the States have a series of requirements now that tighten the eligibility of people who are, as you know, eligible for unemployment, and they have reduced that pool, and that pool has to get added to this number, which we have also raised, the 5 percent, to then trigger a State to get extended benefits.

It is an obscene system. It is simply designed to prevent people from getting unemployment, and it desperately needs to be changed if this tool that we have as a countercyclical tool is to be effective. And I really urge you. We will be happy to work with you. We understand the constraints that you are under. But we really believe that for lots of reasons, this program very much needs to be changed and changed in a way that will make benefits flow more directly.

Mr. LEVIN. Would the chairman yield just for——

[Applause.]

Acting Chairman DOWNEY. The subcommittee will be in order.

Mr. LEVIN. Just briefly, what is the practice in other industrial nations? Is there any other nation that has a gap like we do?

Ms. WYRSCH. My sense is that, from my limited international experience with the International Social Security Association, that other western industrial countries, the OECD countries, for instance, cover many more of their unemployed. But they are not insurance systems. Employers do not pay for their systems. There is Federal payment for them, and they are quite different from ours.

Mr. LEVIN. Well, I mean, there is a tax. They get it through tax revenues. In our case, it is to tax employers. I mean, these are taxes. How is it different? I know you are struggling to somehow defend the system, but I do not understand a differentiation that says it is much different in other industrial nations. And I think the answer is it is very different. No one is near 35 percent. But in our case, it is not tax revenues?

Ms. WYRSCH. We will be glad to discuss this in detail, you know, and I will get some of our experts in international programs to talk to you. But it is my understanding that the programs in the United States differ along a number of dimensions from other programs, not the least of which is that we have a dedicated employer tax, and no other country has that kind of a tax that exclusively funds their benefits.

Mr. LEVIN. Let me just finish then. That is even more of a reason for us to have a higher rate rather than—a smaller gap rather than a bigger one. What you are saying is we have an earmarked tax. We tax employers for unemployment. It is called unemployment. That is what the tax is. And as the chairman says, there is $8 billion that is there sitting for unemployment and we are not using it for the unemployed. So to say that it is dedicated is an argument for a smaller gap rather than a larger one.

Ms. WYRSCH. Well, we can go into that. The insurance principles that operate in the United States, in the State programs, are not duplicated in a lot of other countries in terms of the risk that they incur, the experience rating system. There tends to be fairly universal coverage. And you do not have the insurance notion.

Acting Chairman DOWNEY. The gentleman from Iowa.

Mr. GRANDY. Thank you, Mr. Chairman. Ms. Wyrsch, according to my figures, we appropriated last year about $3.2 billion for State administrative costs nationwide for this unemployment compensation program. But of course, there is more to this than just cutting checks. Part of that budget is also to fund the U.S. Employment Service; is that correct?

Ms. WYRSCH. The $3.02 billion is State administration outlays that go for a number of programs. Among them are the BLS programs, the State grants that BLS gives for local area unemployment statistics, the veterans programs and the Employment Service. So you are correct. The Employment Service is part of that.

Mr. GRANDY. Do you happen to know how much goes to U.S. Employment Service out of that amount. Because apparently according to my figures—oh, is that right? I am told it is about $850 million.

Ms. WYRSCH. I did not have that here, but I will supply it.

[The information follows:]

Employment Service: Fiscal year 1991, $839 million.

Mr. GRANDY. One other thing that has not been addressed at this hearing, as we have looked on the benefit side, is how effective the U.S. Employment Service is in helping some of the potential beneficiaries relocate and find new opportunities? I mean, are we spending this money wisely? Can you comment on that? I realize this is not immediately under the auspices of your department, but I think it is something we ought to consider here, as to whether or

not we are spending $850 million on perhaps a service that is not fulfilling its mission.

Ms. WYRSCH. The Employment Service has a large role in a number of States with regard to the unemployed. In specific States, and I mentioned them earlier—there are very special programs for service to the unemployed; Nevada, Massachusetts, Minnesota have programs like that. There are connections with the Employment Service in a number of States for job search assistance and so on.

The Employment Service performs a range of other functions that the $850 million covers, only part of which is service to UI recipients, per se. My sense is that they are doing an effective job. The role of the Employment Service, what its main function should be, has been the subject of some oversight hearings by Congressman Martinez and some others, and beyond that I cannot speak. But they are, in a number of States, a very essential part of that effort to return people to productive employment.

Mr. GRANDY. Well, I do not doubt that they are supposed to be that. There was an additional $84 million that went into the State administration fund last year, and supposedly there will be a request this year. Is the level of investment being returned, I guess is what I would like to know, especially on job training and education. How can it be improved, would you say?

Ms. WYRSCH. I do not have any specific proposals for improving those other programs. As I said to Congressman Downey a little bit earlier, it is our sense that the unemployment insurance system performs a basic function of identification of those unemployed who need reemployment services, referrals of those people to other systems. We are not interested in duplicating systems. There are systems existing, the Employment Service Job Training Partnership Act. Our role is tracking those people through the system and providing income maintenance to those people while they are in the other systems on the assumption that we can get them early enough in their benefit stream to have UI serve that income maintenance function.

So those other systems can and do today serve many of the unemployed. And we are encouraging that coordination at the State level; service delivery is at the State level. There is an effort under way in Florida——

Mr. GRANDY. Excuse me. Let me stop you. So you are encouraging cooperation at the State level between the various agencies at the State level that are involved in this particular problem?

Ms. WYRSCH. Right.

Mr. GRANDY. Is that to say there has been poor coordination up to this point? Have the agencies not worked in sync in terms of relocating a displaced worker and coordinating that particular applicant's file, perhaps, with unemployment compensation, maintaining health benefits and the like?

Ms. WYRSCH. I make no judgment about poor performance. One of the big lessons we learned in the New Jersey demonstration that we have been talking about and is covered extensively in the implementation booklets that we have published about New Jersey, it is that it is extremely difficult to do the identification and tracking of people across systems. And we have actually put out technical assistance guides about that. And when I say we are encouraging

it, we are fostering that kind of coordination in giving people technical assistance, showing them how it worked in New Jersey, how it is working in other States, and that is the nature of our encouragement of the coordination.

Do we give grants from here for that? No. Most of those programs are operated by States under the auspices of Governors and so on and so our role is technical assistance, fostering the program.

Mr. GRANDY. But you cannot say at this point whether or not the coordination between the U.S. Employment Service and the other agencies that are involved in this particular aspect of benefit compensation, worker replacement and so forth, provides an effective mesh of all those agencies?

Ms. WYRSCH. We have not done a comprehensive study of it, no.

Mr. GRANDY. OK, that is what I wanted to know.

Thank you, Mr. Chairman.

Acting Chairman DOWNEY. Mary Ann, we are going to sit down and talk after this. We have got a broad range of proposals. We thank you for your testimony and look forward to working with you and anticipate having a series of several more hearings and then introducing some legislation that will try to respond to some of the concerns that the subcommittee has. Thank you for coming.

The subcommittee will next hear from a panel that consists of the National Governors' Association, Raymond C. Scheppach, executive director of the National Governors' Association; David H. Ennis, who is the chairman of the Committee on Commerce, Labor and Regulation and a representative of the Delaware House of Representatives; Interstate Conference of Employment Security Agencies, Micheal V. Deisz, executive director, Job Service North Dakota. I apologize for the butchering of the names.

STATEMENT OF RAYMOND C. SCHEPPACH, EXECUTIVE DIRECTOR, NATIONAL GOVERNORS' ASSOCIATION

Mr. SCHEPPACH. Thank you, Mr. Chairman.

I appreciate the opportunity to be here before you today on behalf of the Nation's Governors. I would like to submit my full statement for the record and summarize it very, very briefly.

First, on the fiscal condition of the States, as you probably are aware it is the worst right now that we've seen since the 1982 recession. Over 30 States are in deficit in the current fiscal year, which ends in July. They're currently running a deficit of close to $10 billion or about 3.2 percent of total spending. We have 11 States with deficits of greater than 5 percent and the situation is continuing to deteriorate.

There are a number of reasons for that. First, it's the economy. Revenues are dropping because State revenues are more tied to sales taxes and to corporate taxes. They tend to have a downturn in their revenues before the Federal Government and the personal income taxes.

Similarly on the spending side, we're seeing increases because of caseloads increasing for AFDC and unemployment and the Medicaid program is essentially exploding at the State level. Medicaid was up 18.4 percent last year, we are now looking at growth in excess of 25 percent this year in Medicaid. As the chairman knows,

we have advocated some of the mandates, particularly in the welfare reform area, but what the Congress has been mandating over the last several years is beginning to hit front and center.

There are also major other financial pressures. Prison overcrowding now. We have had a 30 percent increase in spending on prisons; money for education and so on. So my sense is that even when we come out of this recession we're going to continue to have major financing problems.

With respect to the unemployment insurance problem, I would like to make just three points. First, we did write a letter to the President several months ago requesting an administrative cost increase of about $120 million. As you saw in the President's budget, it looks like the President is submitting one for about $100 million. Our current estimate is that now we need approximately $150 million in the net administrative cost portion. So I know this is not technically under your committee's jurisdiction, but anything you could do to help to move that number up to $150 million would, I think, be appreciated.

The other two points are that we constantly face this problem of administrative costs. We faced it last year. We have faced it in 10 out of the last 18 years. We are currently facing it. In the past, as you know, we have had to close offices. This year, we have long lines, are not being able to write the checks in time and so on.

As you think about the program in the future, I think you need to think in terms of some automatic mechanism to fix this problem so that we don't have to be in this bind of having to come back for a supplemental once or twice a year.

The economics change dramatically. I suspect the administration has revised their economic forecast several times this year and it will probably happen again. But I think you need to think in terms of moving towards some automatic mechanism to eliminate this administrative cost problem.

With respect to the extended benefits program, we agree that there are problems with the triggers and the measures of unemployment. Our current policy is under revision there, and we know that we have got some problems with it. All I can say there is that we know that there's a problem and we are going to be revising our policy over the next several months and we would like to work with you as we revise that.

Finally, Mr. Chairman, the UI program is critical to the Nation, to the Congress, to the Governors, and the citizens. It is the first line of defense in a recession. It is anticyclical. It both helps to stabilize the economy and helps the men and women who need that money. We would like to work with you in the various areas: the administrative cost issue triggers and the appropriate unemployment measure as well as the whole extended benefits program.

Thank you and I will be happy to answer any questions.

[The prepared statement follows:]

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STATEMENT OF

RAYMOND C. SCHEPPACH

EXECUTIVE DIRECTOR

NATIONAL GOVERNORS' ASSOCIATION

Good Morning, Mr. Chairman and members of the Subcommittee. On behalf of the nation's Governors I am very appreciative of your continuing interest in the federal-state partnership which is the underpinning of our country's program to serve jobless workers. I am pleased that you have decided to hold a set of hearings on the unemployment insurance program and the recession. At a time of increasing joblessness, when millions of unemployed workers are experiencing great anguish, it is imperative that we ensure that the program designed to protect our workers is in fact doing so.

Because NGA has testified before you on the employment security system twice in recent years, I will keep my formal comments to a minimum and will lay out two general concerns--relating to administrative funding and extended benefits.

ADMINISTRATIVE FUNDING

The Governors' Commitment to Ensuring Adequate Service Delivery to Jobless Workers

As you know, the Governors continue to be deeply concerned about their capacity to serve effectively the increasing numbers of jobless workers coming through the doors of their state unemployment offices. These workers justifiably expect and deserve responsive service. Such is the essence of the compact between federal and state government and between an employer and his or her workers.

The Unemployment Insurance program is this nation's first line of defense against a deteriorating economy. Yet, its capacity to defend and protect is at present greatly diminished, and not for lack of funds being available in the federal Unemployment Trust Funds. As lines become longer in and outside of unemployment offices and workers face increasing delays in receiving their benefit checks, Governors cannot justify to employers why only approximately 74 percent of the money they pay specifically to finance the operation of the employment security system was appropriated during the current fiscal year for that purpose. The remainder is utilized as a paper offset to help achieve deficit reductions.

Prior to the mid-1980s, few states were using state dollars to subsidize their employment security programs. However, to deal with increasingly erratic federal funding during the last decade, more than half the states began to supplement federal dollars with state dollars. As you know, this results in double taxation of employers who are already paying their fair share through their Federal Unemployment Tax Act (FUTA) contributions. The extent of this practice is, frankly, astonishing, should not be necessary, and in most cases will no longer be possible in light of the fiscal condition of the majority of states.

The Governors' Recent Actions

The magnitude of the Governors' commitment to unemployment insurance reform and to ensuring that it is genuinely responsive to increases in unemployment is reflected in two separate actions they took yesterday at their meeting here in Washington.

- The Governors adopted a policy, "A New Federal-State Partnership" which calls upon the Congress and the Administration to join them in a new partnership to maintain critical services during the current economic downturn, as well as to make long-term investments. Among the actions the Governors call for in the short-term to help ease fiscal pressure on the states and stabilize the economy is the enactment of emergency supplemental administrative funds to states for services to the increasing number of jobless workers. For the longer term, the Governors restate their commitment to reform the unemployment insurance program.

- Second, the Governors passed a resolution to amplify their concern about the recurring shortfall in funds to provide services to unemployed workers, particularly in light of the nation's deteriorating economy and the fact that there is a surplus of funds in the federal administrative trust fund.

  The resolution reaffirms the Governors' commitment to work with the Congress and the Administration to overhaul employment security funding. To address the current shortfall, the Governors' again call upon the President and the Congress to enact an emergency supplemental appropriation and to create a true contingency mechanism to ensure that funding can be responsive to increasing unemployment.

  I should point out that we anticipate that the Appropriations Committees will address the issue of the supplemental, but we would consider a systemic overhaul of the financing structure to fall within the jurisdiction of this Committee.

<u>"Proper and Efficient" Administration Is Not A Possibility Amidst Rising Unemployment</u>

The Social Security Act states that the Secretary of Labor shall "certify...payment to each state...such amounts as the Secretary of Labor determines to be necessary for the proper and efficient administration" of the unemployment compensation program. A program that is unresponsive to unanticipated changes in unemployment cannot, in fact, be properly and efficiently administered. A safety net that cannot catch the worker when she or he falls, but instead has the potential to leave the worker at the precipice of poverty does not offer genuine insurance. The system must be workload funded. Presently, it is not.

Because of the flaws in the existing administrative funding structure, the states for the second year in a row--as we have for ten out of the past 18 years--face a shortfall in funds to provide services to jobless workers. Last year was unprecedented in that the Administration did not request a supplemental to address the funding gap. Instead, the Department of Labor intended to manage the gap by "borrowing" base operating funds from the states with relatively less high unemployment and channeling it to states with more severe unemployment. A zero-sum game, the state's gain was another's loss. Owing to the Congress' leadership in passing a supplemental, a large part of the shortfall ultimately was addressed. Even so, there was a serious disruption in service to unemployed workers.

This year we again face this problem, though the Department has proposed a different way of managing the gap. Rather than redistributing base operating funds, DOL will instead pay out "contingency" monies at a reduced rate. With a 6.1 percent estimated unemployment rate, the Department will pay out at most 75 cents on the dollar of state costs; if the unemployment rate is higher (which is widely predicted) the contingency rate will drop. In all likelihood, this year states will respond less by shutting offices and more by overburdening their existing capacity. Workers will--and do--face enormous delays in receiving their benefit checks. In other words, rather than dismantling existing capacity, the states will lack the necessary funds to build the additional needed capacity. The system will become more and more overburdened.

We understand that the President has included in his budget request a $100 million supplemental for unemployment insurance administration. We are enormously appreciative of his acknowledgement of the need for additional funds. However, we are concerned that the request is not classified as an emergency so if enacted could trigger a sequester of other critical domestic discretionary programs. Further, the true amount of the shortfall based on the President's own assumptions about unemployment would put the shortfall at $200 million; even with the carry-in funds from FY90, we still anticipate a need for at least $50 million more than the President projected. A number of states--Michigan, for example--have no, or only a minuscule amount of, carry-in.

In Michigan, where the unemployment rate in January was 7.2 percent, jobless workers must wait at least one month to receive their first benefit check. On average, the wait is closer to six to eight weeks. In New York, where the January unemployment rate was 6.5 percent, up from 4.8 percent at the same time last year, more than a half a million workers are exceeding the state's capacity to respond. Last year three local offices were closed; this year there are long delays both in lines and in receiving the benefit checks. In Florida, the January unemployment rate was 6.1 percent, up from 5.7 percent from last January. For the last quarter of 1990, the number of unemployment insurance claims was fifty percent higher than the same period in 1989. And this growth excludes the impact of the shutdown of Eastern Airlines, expected to affect 8,500 workers directly, and an additional 2,000 to 4,000 indirectly.

At the least, these workers are justifiably angry; at worst, they are poverty-stricken.

The Governors' Proposal for Reform

We would argue that the key components of any legislation attempting to reform the employment security system must address:

- administrative financing reform;
- programmatic reform, specifically identifying core services that employment security programs across the nation should provide to unemployed workers and other job seekers; and
- "coordination" reforms that give Governors the ability to better integrate the employment service and unemployment insurance operations, including expanding Governors' flexibility in managing these two programs and in leveraging the resources of both to enable the employment security system overall to take its place as a cornerstone in our strategy to improve the competitiveness of our workforce.

As you know, the Governors have put forth a series of proposals to address the administrative financing problems symbolized by the current funding crisis. They are based on a very simple pair of premises: 1) resources currently appropriated to the employment security system are inadequate to support essential services, and 2) employers who finance this system through the Federal Unemployment Tax Act are investing enough money into the system to provide an adequate service.

We have put forth a proposal, knowing that it will require adjustment as the debate proceeds. Over the course of the next several months, the Governors look forward to working with the Congress, the Administration, and the business and labor communities in ensuring that a proposal for reform has a broad-base of support. We will, in fact, be amending our own policy to address a number of the concerns that have been raised regarding it, and will hope to develop alternative approaches which achieve the goal of ensuring that funding is responsive to changing levels of unemployment.

THE EXTENDED BENEFITS PROGRAM

With regard to extended benefits, the Governors recognize that there are problems with the existing program. Like you, they firmly believe that, as a counter-cyclical program, it should effectively support workers who have exhausted their UI benefits at a time of great economic distress. We know that there are concerns about whether the triggers are calibrated correctly and whether they are using the most appropriate unemployment measures. The Governors understand that you will be proposing legislation to address some of the concerns with "EB." We would make one very important caution.

Many states are in great fiscal distress. In response to the bleakest fiscal conditions since 1983, 28 states say they must cut spending or increase revenues--or already have--to avoid revenue shortfalls in their already enacted fiscal 1991 budgets. And more state budgets are likely to go out of balance before the current fiscal year ends on June 30. According to a survey released in January by the National Association of State Budget Officers (NASBO) and NGA, total state revenue shortfalls for fiscal 1991 are estimated at $9.6 billion, or 3.2 percent of appropriated expenditures.

We strongly urge you not to make changes to the Extended Benefit program now that would jeapardize state trust fund accounts and place our economies in further distress. States manage their benefit accounts according to projections about the economy based on current law. The Governors, would, therefore, be placed in an extremely difficult situation if the program were adjusted without a significant increase--ideally to 100 percent--in the federal share of the benefit payments.

On a similar note, we are also concerned about the administrative impact of Extended Benefits on top of our already depleted capacity. To administer an additional thirteen weeks of benefits under an extended benefit program will incur costs which should, under the program design, be 100 percent federally funded out of "contingency." Yet it is the "contingency" account which is already running far short. If Extended Benefits were to trigger, additional administrative funds would be essential.

Again, we thank you for convening this hearing and for inviting me to appear before your Subcommittee. We look forward to continuing to work with you to ensure that employers and workers, and our society overall, are well served by our investment in insurance against unemployment.

Acting Chairman DOWNEY. Thank you.
Mr. Ennis.

STATEMENT OF DAVID H. ENNIS, CHAIRMAN, COMMITTEE ON COMMERCE, LABOR AND REGULATION, NATIONAL CONFERENCE OF STATE LEGISLATURES; AND CHAIRMAN, COMMITTEE ON BANKING AND INSURANCE, DELAWARE HOUSE OF REPRESENTATIVES,

Mr. ENNIS. Thank you, Mr. Chairman.

My name is David Ennis, and I am a member of the Delaware House of Representatives and I come today as the chairman of the NCSL Committee on Labor, Commerce and Regulation. I would like to thank the chairman and the members of the committee for their intestinal fortitude in dealing with a problem that affects the lives of millions of people every single day. I know that you have been at this longer than I, and I commend you for your continued pursuance of a goal.

The UI and the ES administrative system is underfunded as has been described by the previous witnesses and by your line of questions. The taxes have already been collected from the employers. We believe that the trust fund for the administration has been allowed to accumulate into excess surpluses and we believe that those funds should be returned to the States.

One idea, as you proceed with rewriting the structure of this legislation, that has not yet been voiced and I would share that with you at this point, is the possibility of the full funding of extended benefits from that Federal fund that you identified a moment ago as quite large. We believe that the States are going into a very, very difficult time. And as an example, I was here before your committee just about a year ago and I gave you what I thought was some bleak information. But, however, in December of 1989, the State of Delaware had a 2.6 percent unemployment rate and in December of 1990 that is 6 percent.

Now, while we look at the broad national averages it doesn't always reflect the actual pain and suffering that goes on in the workplace, and I think it's terribly important that the flexibility through those funds passing back to the State be built into the proposed changes that you folks do make.

NCSL has communicated with the White House and has asked for the full supplement that is based on the formula of the workload within the States. It was part of the partnership in the agreement when the legislation was passed. We believe it is terribly important that when you finally get to the point of just considering supplemental appropriations, that you do look at the full supplement and not just a percentage as we have heard rumored.

One question was asked about closing of offices. While I do not have this national statistic, I do have in my testimony, which is before you, an example of one State, Indiana, for instance, closed 17 offices in 1990 alone and their claims went from 29,670 to 57,330. The disservice to those unemployed is incredible.

We have taken the position in the past and we still support the National Governors' Association base recommendations for rewrit-

ing of the law. We would like it at least to be considered as a part of your consideration as you move forward.

In seeking to reform the system, we believe there are three principal objectives. The States must have sufficient management authority over the employment security system; second, there must be an equitable sharing in the fiscal burden in a reformed employment security system; and third, the only way to restore our endangered system of unemployment insurance is to pursue the politics of consensus.

I commend the committee for its approach in inviting conversation through this hearing and subsequent hearings. As with many of the intergovernmental relations that have gone on for some time, a significant loss of confidence and trust has occurred because of the changes inadvertently or intentionally by the holding of these funds in the Federal Treasury.

We believe very strongly that now is the time to make those changes to return those funds to the State. We, in NCSL, look forward to working with you in the months to come and appreciate this opportunity to participate today.

Thank you.

[The prepared statement follows:]

**STATEMENT OF REP. DAVID H. ENNIS,
DELAWARE HOUSE OF REPRESENTATIVES ON BEHALF OF
THE NATIONAL CONFERENCE OF STATE LEGISLATURES**

Mr. Chairman and Members of the Committee:

My name is David Ennis. I am a member of the Delaware House of Representatives, where I chair the Banking and Insurance Committee. I also serve as chair of the Committee on Commerce, Labor and Regulation of the National Conference of State Legislatures (NCSL).

I appear today on behalf of NCSL to comment on the state of the unemployment insurance system at this time of recession. I appear today also on behalf of my constituents in the state of Delaware, where we have an unemployment rate that exceeds the national average.

As you know, NCSL represents all the legislatures in the American states, commonwealths and territories. My testimony is based on a resolution adopted at NCSL's State-Federal Assembly, the policy-making body that guides our advocacy activity with Congress, the Supreme Court, and the Administration. In general, NCSL's policy resolutions reflect our dedication to preserving a strong federal system and to maintaining effective intergovernmental programs, including unemployment insurance.

As I noted to this committee in my testimony a year ago, the unemployment insurance (UI) and employment service (ES) system is in crisis. The state-federal partnership is breaking down. As our nation copes with a recession, the needs of workers and employers are not being met.

State legislatures are especially distressed that the UI and ES administrative system is underfunded and that the unemployed suffer hardship at a time when an adequate surplus resides in the Unemployment Trust Fund to pay for administrative costs. The taxes have already been collected from employers. We believe the trust fund for administration has been allowed to accumulate a large surplus because under federal accounting rules it serves as a paper offset, disguising the size of the federal deficit. This provides a perverse incentive for federal budgeteers to restrict UI administrative funding to meet deficit reduction targets.

NCSL recommends moving the unemployment trust fund off budget and outside the deficit reduction process. Absent such reform of the accounting system, we fear that administrative funds will be squeezed, year after year, resulting in a deterioration of service that ultimately will discredit the system.

For example, official unemployment estimates have been increased twice since the FY 1991 budget was submitted. Because the system for allocating funds for administration of the unemployment insurance system is workload driven, a large shortfall of administrative funds for the system is projected. It could run in excess of $200 million.

The U.S. Department of Labor recently informed the states that it plans to respond to the shortfall by paying only 75 percent of the increased UI workload costs in FY 1991. This is a breach of the state-federal partnership, whereby the states pay for regular unemployment benefits while the federal government pays the cost of administering the system

with employer taxes that are dedicated exclusively to this purpose and retained in the Unemployment Trust Fund.

To a small state like Delaware, the impact of a 25 percent cut in funding could be devastating. For example, currently our UI offices handle 7,000 claimants per week. We have two automobile plants in one county. When one of those plants closes, it adds 3,500 claimants to the system, and when the other plant shuts down, it brings another 3,500 into the UI safety net. Looking ahead, one can see there will be times in the coming weeks and months when both of these plants will be closed at the same time. Without adequate funding of the administrative system, how are the claims of those auto workers going to be processed?

NCSL has written President Bush and requested an emergency supplemental appropriation of FY 1991 funds to meet the shortfall. One hundred percent of increased UI workload costs must be met, in a supplemental appropriation. This request is strongly supported by the business community, as well as labor and state officials. It is an urgent necessity as lines of unemployed workers lengthen at UI offices.

Last year, when we also had to ask for a supplemental appropriation, the threat was of widespread office closings and staff layoffs. We have some projections of layoff plans and plans to close offices, in West Virginia, Washington, and Minnesota for example. But this year, the shortfall will weigh even more heavily on the unemployed. Even with funding restricted to 75 percent of workload levels, in most jurisdictions the absolute level of dollars is unlikely to fall, given that unemployment is so much higher. The workload, instead, will simply overwhelm existing offices and staff, which have been reduced dramatically in number since the last recession. In Indiana, for example, 17 offices were closed and 100 staff laid off in 1990, leaving the state unprepared for an increase in average weekly claims from 29,670 in October to 57,330 in December. Similarly in Delaware, if our two automobile plants close, how are we going to handle the claims without the additional administrative funds that were to have been provided based on workload levels?

In Michigan, it is reported by the Interstate Conference of Employment Security Agencies (ICESA), unemployed workers must wait at least a month for their first check. The wait in line to file claims averages three hours and can run as long as six or seven hours.

In Maine, claimants may wait four or five hours, and then, because of the backlog in processing claims, wait three or four weeks for a check. Waiting time to file a claim in Connecticut averages over three hours.

Such hardship is unnecessary. We should not have to come back again and ask for supplemental appropriations. As at least an intermediate step to reforming the system, NCSL, as part of a coalition of business, labor, and state government associations, recommends that Congress establish an appropriated reserve fund to avoid future shortfalls in administrative funding. Economic projections especially of unemployment levels are never exact. A reserve fund will provide financing automatically to meet workload demands on unemployment offices during economic slowdowns and recessions.

Beyond the appropriations issue, which is the immediate concern of the states, there are also proposals to reform the structure of the unemployment insurance and FUTA tax system.

It is suggested that FUTA taxes ought to be increased by raising the wage base in order to better fund trust accounts for extended benefits and loans to states. As you know, unemployment taxes are calculated based on a rate that is applied to a so-called wage base. Federal law mandates that the state wage base equal the federal wage base. So, unless the state already has a wage base that exceeds the new federal level, when the federal wage base goes up, then state taxes on employers go up unless the state reduces the rate. An increase in the wage base would force state legislatures in many jurisdictions either to allow such an increase in taxes on employers at the worst possible time or to cut the rate of state taxation to pay for benefits.

We recognize the extended benefits issue is serious. We also recognize that there are serious issues in some jurisdictions about the adequacy of state trust funds to pay benefits, if the recession extends longer than expected.

These issues, however, cannot be discussed outside the context of trust fund accounting reform and reform of the funding arrangements for UI administration.

It is, at the very least, impolitic to ask employers to pay higher taxes for either administration or benefits, when there is no guarantee that FUTA revenues will not be allowed to accumulate to unnecessarily high levels in the trust fund, simply to serve as a paper offset against the deficit.

Similarly, Congress should find it undesirable to force a higher wage base on the states. Such a mandate would create an incentive to increase taxes on employers for benefits, when those employers already are burdened by FUTA taxes that have been diverted from their original, intended purpose of paying for administration of the system. Such a move would undermine significantly employer's support for the system, which we regard as essential. It would also create bad feeling among state officials, many of whom would regard it simply as a federally-mandated tax increase, thus undermining further state support for the system.

There has been a loss of trust and faith. And, some reform of the UI system is required, if we are to meet the needs of unemployed workers, and if we are to restore a cooperative state-federal relationship.

In general terms, NCSL has endorsed the National Governors' Association plan for reforming the employment security system. The NGA plan would guarantee that FUTA revenues held in trust funds will be appropriated and returned to the states in amounts that will allow the efficient and effective administration of employment security programs.

The NGA plan also contemplates a number of reforms intended to develop a more flexible UI/ES system that is integrated with state training programs and state economic development goals.

We believe that the NGA plan should be the basis of a state-federal dialogue about how the UI/ES system can be reformed and how a cooperative relationship between federal and state governments can be restored.

As I noted in my testimony last year, in seeking to reform the system and in order to have a constructive dialogue, we believe a number of general principles must be kept in mind.

First, states must have sufficient management authority over the employment security system. Economic and social conditions vary from state to state, and state legislatures should have the flexibility to determine the appropriate mix of services and to design appropriate administrative mechanisms. This flexibility should be provided pursuant to state law and not simply at the discretion of the Governor, to ensure that all affected groups have an opportunity to make an input in fund transfer and similar decisions.

One method of providing maximum flexibility would be to devolve the system to the states. NCSL has not yet called for the devolution, in part because interstate competition to provide the best business climate for economic development purposes could result in a "race to the bottom," with respect to UI services to workers.

At the same time, the current system is not working, because of an inflexible and inadequately funded administrative system. The incentive for states to "go it alone" can only build, unless the administrative funding system is reformed.

States are going to have to be given more authority and flexibility to administer the system.

Second, there must be an equitable sharing of the fiscal burden in a reformed employment security system. The fiscal condition of the states over the past year has gone from bad to worse. We are facing huge gaps between projected revenues and spending. In some states, deficits are running to several billion dollars. This will force harsh budget cuts, severely reduced social benefits to deserving individuals, and tax increases burdening hard-pressed families. Federal mandates to increase state spending will not be looked up kindly in these circumstances.

The UI system is unique in its peculiar method of fiscal burden sharing between state and federal government. In particular, the mandate that states conform to a wage base at least as high as the federal wage base is very unusual. It can be a source of considerable tension, especially in these difficult economic times.

This stress in the system will be compounded if proposals for wage base increases are coupled with new federal mandates, such as proposals to liberalize extended benefits or to mandate training programs for certain recipients.

These may be humane and worthwhile program proposals, considered in isolation, but who is going to pay for new mandates?

State taxpayers are already pressed to the limit. State revenues are already dropping sharply. We are struggling to preserve valuable social programs. The states cannot afford expensive new federal mandates. If the federal government wants to expand program benefits, the federal government should pay for them.

The state commitment to a national system is going to depend on full mandate reimbursement, equitable sharing of costs, and administrative flexibility for states to cut unnecessary costs.

Third, as I noted last year, the only way to restore our endangered system of unemployment insurance is to pursue the politics of consensus. Labor and management must be involved equally. And, the problems of each must be handled fairly. In the same way the federal government must not seek to coerce or mandate state action, but rather must solicit state cooperation.

In summary, it is our view that the federal government must take three immediate steps to restore intergovernmental cooperation: (1) provide supplemental appropriations for administration of the system in FY 1991 that fully fund workload costs, (2) establish a reserve mechanism to meet future shortfalls, and (3) make fundamental reforms in administrative funding including removal of the unemployment trust fund from the unified federal budget and the process for federal deficit calculation.

The first and second steps, which are primarily the responsibility of the Appropriations Committee, are only a partial solution. The third and most important, however, fundamental reform of the administrative funding system, is under the jurisdiction of the subcommittee and NCSL urges you to address it.

Again, we believe the NGA plan is a good starting point of discussion, and that any reform plan must involve: (1) flexibility and sufficient management authority for the states, and (2) an equitable sharing of the fiscal burden between state and federal government. Furthermore, we believe the process of reforming the system can only proceed on the basis of consensus.

Again, on behalf of NCSL, we pledge to work toward consensus. We look forward to working with you, Mr. Chairman, and to working with all the members of this committee to develop a program for reforming the Unemployment Insurance and Employment Service system.

Acting Chairman DOWNEY. Thank you, Mr. Ennis.
Mr. Deisz.

STATEMENT OF MICHAEL V. DEISZ, PRESIDENT, INTERSTATE CONFERENCE OF EMPLOYMENT SECURITY AGENCIES; AND EXECUTIVE DIRECTOR, JOB SERVICE NORTH DAKOTA

Mr. DEISZ. Thank you, Mr. Chairman.

Mr. Chairman, my name is Mike Deisz. I am executive director of Job Service North Dakota and I am here today as president of the Interstate Conference of Employment Security Agencies. Our members are the State officials who administer the unemployment compensation laws and the public employment service operations at the State level.

I will make my comments brief and touch on some of the issues that were raised already. I might mention that as somebody who works in the system at the State level that we are very appreciative of the attention that your committee is giving this area and point out to you our plight in operating in a system that really does not have a consensus, does not have a clear cut direction.

The insured unemployment/total unemployment rate gap is one example of this. Figures have been cited that in 1975, 75 percent of the individuals unemployed drew benefits. This figure in 1990 was 37 percent. There is another way to look at that, however. In 1975, 49 percent of the unemployed drew State benefits. That figure has dropped to about 37 percent. In 1975, 26 percent were drawing some form of Federal supplemental or extended benefits and in 1990 that figure was close to zero.

The point we are making, Mr. Chairman, is that there have been a series of actions through the decade of the 1980s—the elimination of the Federal supplemental programs, the elimination of the national trigger for extended benefits, the raising of the insured unemployment rate trigger at the State level for extended benefits. All of which have resulted in significant reductions in the percentage of people who are drawing benefits. We would certainly be very happy to work with anyone, and your committee, particularly, who would point the direction—what is the percent who should be covered? I think there is no consensus there, and periodically we look at it and become concerned.

We would encourage the committee, and the chairman who is looking at some legislation, to consider repealing the Federal qualifying requirements for EB, to put the benefits for the military on the same basis as civilians, and to monitor the number of people exhausting unemployment benefits at the State level to determine the need for Federal supplemental benefits.

The administrative funding area is a real critical area as we go into this recession. The claims staff at the State level has dropped from 57,000 to 43,000 from 1983 to the present. The public employment service which is often subject to criticism, the staff in that area has dropped from 32,000 in 1980 to about 17,000 in 1990. Very clearly those two systems are severely strained as we enter this recession. And with the difficulty in accessing additional moneys that situation is only going to be compounded.

We have seen in the fiscal year 1990 financing of the administrative cost of unemployment insurance where the administration's first attempt at dealing with increased workload was to give everybody a 6.7 percent across-the-board cut in their base staff and then use that money to pay for the additional workload. What happened then is that States, like Indiana, were closing offices as unemployment was skyrocketing.

Long lines, hours of waiting to file claims, the office is closed, the unemployed driving great distances, higher error rates and significant delays in getting checks are all a part of that process and will continue to be this year.

The funding shortfall that was referred to earlier for administrative costs in unemployment insurance this year is really at $200 million and we would strongly encourage the Congress to consider funding the system at that level through an emergency supplemental and to provide a standby reserve mechanism that could automatically be accessed.

The principal problems we see is that the trust funds—the administrative accounts—are a part of the Federal budget. We ended last year with $1 billion more in the administrative account than the ceiling provided for. The deficit has driven that situation. We are entering a recession without a clear cut policy direction and without an infrastructure that can even be readily built up to meet the needs of the unemployed.

Thank you, Mr. Chairman.

[The prepared statement follows:]

Statement by Micheal V. Deisz

Executive Director
Job Service North Dakota
and
President
Interstate Conference of Employment Security Agencies

To

Subcommittee on Human Resources
House Committee on Ways and Means

February 6, 1991

Mr. Chairman and members of the Subcommittee, my name is Mike Deisz. I am Executive Director of Job Service North Dakota and President of the Interstate Conference of Employment Security Agencies (ICESA). ICESA's members are the state officials who administer unemployment compensation laws, the public employment service, labor market information programs, and in many states, job training programs. Thank you for the invitation to appear today to discuss the state-federal unemployment compensation program in the context of the current recession.

Unemployment compensation has long been, and continues to be, the Nation's first line of defense in a recession. Cash benefits are provided as a matter of right to workers who are idled by the economic downturn. State financed benefits tide workers over for up to 6 months; when unemployment reaches levels high enough to trigger payment of Extended Benefits, another 3 months of payments, financed jointly by the state and federal government are available. During past recessions, the federal government has provided additional weeks of supplemental benefits financed entirely by the federal government.

This recession has brought to public attention a number of critical issues facing the unemployment compensation system:

- Decline in Percent of Unemployed Receiving Benefits. In recent years, there has been a decline in the segment of the unemployed who receive benefits as a percent of the total number of unemployed workers. We believe that the federal policies which have restricted the payment of benefits over the past ten years should be examined and, in many cases, repealed.

- Administrative Funding. The administrative funding mechanism for the system which worked relatively well for many years has been distorted by federal budget deficit considerations. Lack of sufficient funds for unemployment insurance (UI) along with deep cuts in the employment service, with which offices and computer equipment are shared, have left the system without the capacity to respond in an adequate manner to recession levels of unemployment. Administrative funding arrangements should be overhauled.

- Trust Fund Solvency. Determining what is an adequate level of trust fund reserves is a question which has been debated throughout the history of unemployment insurance in this country. We believe that it should remain a state decision.

DECLINE IN PERCENT OF UNEMPLOYED RECEIVING BENEFITS

It has appeared to states that the federal view of unemployment insurance over the past decade has been rather schizophrenic. Federal legislation during this period has consistently restricted the payment of benefits while federal officials questioned why the number of unemployed workers receiving benefits as a percent of all unemployed workers declined.

The most frequently quoted statistic about the decline in the number of unemployed workers who receive benefits is that in 1975, about 75% of the unemployed received benefits while now only 35% do. In order to understand the reasons for this decline, it is important to look behind those numbers.

The portion of the unemployed who receive benefits tends to fluctuate with economic conditions. A higher portion of the unemployed are paid benefits during recessions because those who have recently lost their jobs usually qualify. Unemployment insurance was not structured to provide assistance to new entrants or reentrants to the labor force or to the long term unemployed. Now, as we have entered a recession, the gap in insured and total unemployment is narrowing. In January, 46% of the unemployed were receiving state unemployment benefits. Another 0.02% were receiving other benefits such as those available to former federal workers. Extended benefits were not available in any state.

In 1975, 49% of the unemployed received state unemployment benefits; the remaining 26% who received benefits qualified for federal benefits--including extended benefits, federal supplemental benefits, special unemployment assistance, and benefits for former military service personnel. Most of these federal benefits, which were available primarily to those who had already received state benefits, have been either eliminated or restricted since 1975. The temporary programs, federal supplemental benefits and special unemployment assistance, ended after the recession. However, there were significant changes to the permanent programs:

- In 1980, P.L. 96-499 required states to deny extended benefits to individuals who failed to meet certain federal eligibility requirements. These include presenting "tangible proof" of the individual's search for work each week, and denial of benefits if the individual failed to meet the requirement, not just for that week, but for the duration of the individual's unemployment. Another requirement is application for "suitable" work, suitable being defined as any work for which the individual is capable and which pays at least the minimum wage or as much as the individual's weekly benefit amount.

- Also in 1980, federal funding of benefits for former public service workers (under the Comprehensive Employment and Training Act) was eliminated.

- In 1981, the national trigger for extended benefits was eliminated, making extended benefits available only when the state insured unemployment rates meet the required levels.

- Also in 1981, the calculation of the state extended benefit trigger rates was revised to exclude extended benefits claims, in effect, increasing the level of unemployment required to trigger an extended benefit period.

- In 1982, the state trigger rates were changed from 4% (plus an increase of at least 20% compared to the same period in the prior two years) and the optional 5% without regard to the comparison with a prior period, to their present levels, which are 5% plus a 20% increase and the optional 6%.

- Also in 1982, states were required to deny extended benefits to unemployed workers who had not worked at least 20 weeks in full time employment, or the equivalent, during the 12 month period on which his/her state unemployment benefit claim was based.

- In 1982, P.L. 97-362 limited payments to former military service personnel to half the number of weeks available to unemployed civilian workers and imposed a 4 week waiting period for benefits.

In addition to the cut-backs in federal benefits, the federal government has both required and encouraged states to restrict benefits over the last ten years:

- In 1980, P.L. 96-364 required states to deduct pension payments, including social security, from unemployment benefits. In many cases, this disqualifies otherwise eligible unemployed workers from benefits entirely.

- Also in 1980, federal reimbursement for the first week of extended benefits was eliminated for any state that did not require at least a one week waiting period for regular state benefits, in effect, a financial penalty for states that chose to have no waiting week.

- In 1983, states with insolvent trust funds were offered a chance to stretch out repayment of loans to the federal government if they took steps to cut benefits as well as increase revenues. States in poor financial condition had little choice but to make benefit cuts part of their package of "solvency legislation."

- Also in 1983, states were required by federal law to deny benefits to nonprofessional employees of educational institutions between academic terms.

- In 1986, unemployment benefits were made subject to federal income taxation without regard to the individual's total income. Some believe that this reduction in the value of benefits has made some unemployed workers less likely to claim benefits.

ICESA urges you to repeal the federal qualifying and eligibility requirements associated with the extended benefit program and other federal requirements related to eligibility for state unemployment benefits; to provide unemployment benefits to former military personnel on the same basis as benefits are provided to civilian workers; and to monitor the number of workers who have exhausted state benefits to determine whether a federal supplemental benefits program is needed.

As you consider changes to the extended benefits program trigger levels, please keep in mind that states have made decisions about their trust fund reserve levels based on projections of outlays under the current extended benefit trigger levels. Any changes which would increase state financial obligations during this recession could lead to insolvency of some states' trust funds. States need sufficient lead time to factor any increased benefit obligations into their trust fund reserve calculations. Lead time of at least one year, and two years in states where the legislature does not meet every year, is also needed to enact necessary state legislation to implement changes to the program.

ADMINISTRATIVE FUNDING

As we face a deteriorating economy, most state employment security agencies are not as well prepared as they need to be to serve a growing number of jobless workers. Cutbacks in federal appropriations for administration of unemployment insurance and employment services during the 1980's have left most states with fewer staff and local offices than they need to meet recession-level workloads. In addition, the Budget Enforcement Act has made the prospects for obtaining additional funds uncertain.

One of the great strengths of the unemployment insurance system over the years has been its ability to expand and contract in direct response to economic conditions. This flexibility has been due in great measure to reliable federal funding based on workload--the number of unemployed workers filing claims for benefits. In recent years federal funds have been greatly restricted. Since 1983, state unemployment insurance staff levels have dropped from about 57,000 to about 43,000 in the current fiscal year. Over the last ten years, the number of employment service staff nation-wide has dropped from about 32,000 to the present level of about 17,000. Although this drop in unemployment insurance staff has been due, in part, to lower unemployment, the combined reduction in resources for UI and ES which share many facilities has reduced the system below the level necessary to maintain an adequate infrastructure of offices and computer systems. Thus the unemployment insurance system enters this recession without the capacity it needs to respond to recession level unemployment.

The system was able to expand expeditiously in the past because federal administrative funds increased concurrently with increases in unemployment. Before Fiscal Year 1990, when claims for unemployment benefits exceeded the level on which the appropriation was based, the Department of Labor requested supplemental funds to pay for services to the additional unemployed workers. However, our experience in FY 1990 and the changes to the budget process enacted last year suggest that we can no longer rely on additional federal resources when unemployment increases, creating uncertainty in state planning and service delivery.

Let me outline our experience last year. In December of 1989, the Department of Labor notified states that although unemployment projections were higher, the Administration would make no supplemental funding request. Instead, the Department of Labor reduced the amount of basic grant funds previously allocated to states by an average of 6.7% and implemented plans to reimburse states at a reduced rate each quarter for additional workload. As a result, many local unemployment offices were closed. For example, 17 full-time offices and 45 part-time offices were closed in Indiana. There were long lines in many offices; unemployed workers waited four to five hours to file claims in Michigan, for example. Due to these obvious hardships, Congress took the initiative and provided $100 million in supplemental funds in May, 1990. These additional resources shored up the system for the remainder of FY 1990; however, the delay of almost six months meant that from January to May many unemployed workers were subjected to overcrowded offices and delays in claim filing and payments. Our own employees in these offices were pushed further than good management dictates. They put in long hours and were blamed for the overcrowded conditions by understandably frustrated unemployed workers.

We are again faced with a substantial shortfall in the current fiscal year. The current funding level for unemployment insurance is based on an estimate of 2.54 million claims per week for FY 1991. The Department of Labor notified states in October that the estimate had increased to 2.84 million claims per week, resulting in a shortfall of about $84 million. The Department's shortfall estimate does not include an estimated $10 million needed for the increase in the postage rate or the $49 million reduction resulting from an across-the-board cut in the Labor, Health and Human Services, and Education appropriation for FY 1991. As a result of the shortfall, the Department of Labor has reduced reimbursements to states for additional workload each quarter by 25%. If unemployment reaches the 6.5-6.8% levels now predicted the shortfall will be $150-200 million. We understand that the Administration has

requested $100 million in supplemental funds for FY 1991; however, this will only maintain a 25% reduction in the reimbursement rate, not fully fund unemployment workloads.

Claims for unemployment benefits are rising rapidly, faster than the overall unemployment rate. The shortfall is hitting hardest those states with rapidly rising unemployment claims. The following are a few examples:

> In Michigan waiting time to file claims in some offices can be as long as 6 - 7 hours. Unemployed workers do not receive their first check until a minimum of one month after lay-off; many wait longer.
>
> New York's computer system failed in early January because the number of claims entered exceeded its capacity. Three local offices were closed last year, now many of those remaining are overcrowded with long lines and delays in claims processing.
>
> In Connecticut the average wait to file a claim is 3 1/2 hours; payments are running 1 1/2 to 2 weeks late.

ICESA has several recommendations for addressing the current shortfall which have also been supported by governors, state legislatures, organized labor, and members of the business community:

> First, an emergency supplemental appropriation is needed quickly to avoid unconscionable hardship on unemployed workers. The amount of this supplemental should be determined by the most current unemployment estimates. The supplemental must be designated an emergency in order to avoid triggering a sequester on other domestic discretionary programs.
>
> Second, language should be included in appropriations for unemployment insurance operations which would provide necessary funds to process claims for unemployment which are not anticipated at the time the appropriation is made. This would ensure that funds would be available if unemployment should rise even higher, without the necessity for supplemental appropriations. Similar "contingency" appropriations language already exists for administrative costs of other benefit entitlement programs.
>
> Third, fundamental changes are needed in administrative funding arrangements for unemployment insurance. ICESA has long advocated excluding the federal Unemployment Trust Fund from the federal budget. Another step which should be given serious consideration is switching the administrative costs of unemployment insurance from the discretionary to the mandatory category. Administrative costs of many other entitlement programs are structured in such a way that those costs are also an entitlement. If unemployment insurance remains in the discretionary category, increases in the cost of unemployment insurance administration will either be ignored to the detriment of unemployed workers or funded at the expense of other domestic discretionary programs. By switching unemployment insurance administration to the mandatory category, these changes in cost could be accommodated.

The first and second of these recommendations are "quick fixes" for the immediate and short term future which we hope to accomplish through the appropriations process. However, the current situation illustrates that the existing statutory administrative funding arrangements for unemployment insurance, which are under the purview of this committee, are in need of an overhaul. While the existing statute is very flexible, its discretionary nature makes the unemployment insurance system vulnerable to cuts through application of rules under the Budget Enforcement Act.

The scarcity of funds for unemployment insurance is particularly difficult for employers, workers, and state officials to understand because a federal payroll tax, the Federal Unemployment Tax, produces revenue which is dedicated to providing administrative funds for unemployment insurance, employment services and certain veterans employment programs. These funds are held in the Employment Security Administration Account in the Federal Unemployment Trust Fund, from which appropriations for these programs are made. The Employment Security Administration Account was projected to have a balance at the end of FY 1990 of $1.64 billion, $480 million above its statutory ceiling. More than sufficient federal unemployment tax revenues are collected for unemployment insurance and employment services; however, they are held hostage like many other trust funds to the federal budget deficit.

STATE TRUST FUND SOLVENCY

During the past seven years states have repaid about $14 billion in federal loans and built up total state trust fund reserves of about $40 billion. Studies by the General Accounting Office project that in a severe recession beginning in 1991, 22 states would borrow $17.4 billion over a five year period from the Federal Unemployment Account (loan fund) in the Federal Unemployment Trust Fund.

ICESA has no independent projections of state borrowing; however, we believe that the federal policy decisions in the 1980's related to unemployment trust fund loans will tend to limit borrowing and encourage quicker repayment. The interest charging provisions which went into effect in 1982 have eliminated any incentives for states to build large debts.

While adequate reserves are always a goal, there are tradeoffs between higher reserves which require higher taxes and lower reserves which may require occasional borrowing. Each state has determined the risk it is willing to take. There have been suggestions for federal incentives for higher trust fund reserves. For example, the federal government could pay a higher rate of interest on state trust fund reserves that exceed a certain level of solvency, or discount the rate of interest charged on loans if the state met a certain level of solvency in the year prior to borrowing. We think that these are interesting ideas which should be explored further.

However, we urge you to reject any proposals for federal solvency standards for state trust funds. We believe that such standards are neither feasible nor desirable. They could result in benefit cuts or inappropriately timed tax increases. Decisions about state trust fund solvency should be made in the legislative process of each state where the many variables which must be considered can be taken into account.

Mr. Chairman, ICESA appreciates your continuing interest in unemployment insurance. If you have any questions, I would be pleased to address them.

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Acting Chairman DOWNEY. Thank you.

When we introduced legislation last year the Governors were opposed to the sub-State triggers. Would you be continuing to oppose that if we worked in something that included a dramatic change in the way that we did extended benefits?

Mr. SCHEPPACH. We would be willing to consider it. I think we are a lot more flexible on the policy now, than we were last year.

Acting Chairman DOWNEY. OK.

Dave, you, I think, set the right tone by suggesting that we need to approach this in a consensus way. I think that's right. I would feel a lot more comfortable giving the States more money, because I trust their judgment if I didn't see the evidence that I have over the last 10 years of them restricting the benefits. I think the States have had a pretty lousy record of following the Federal Government in restricting the way in which people are eligible for benefits.

So, if we consider here giving you back money or making the administration account entitlement, if we could do that, then it would come at the expense of some of the State discretion in determining who is eligible. I want you to understand that. When I see people unemployed in Delaware or in New York or in Michigan, I don't see them as Delawareans unemployed or New Yorkers unemployed. These are Americans who are unemployed. It is a national problem and yet, we continue to look at this as though we were a collection of States and not a country. I mean it is crazy. And in the various programs in the States—you wait 2 weeks in some States, and 4 weeks in another depending on whether or not there are people to receive the claims as was testified by Mr. Deisz. The State of Indiana is one notable example. There are serious problems.

We are going to work with you on this and we are going to do this in short order. As long as you understand that we have concerns, too, about what the States have done. But I think you have an absolute right to say to us, hey, you have all of this money and we are starving. We are very sensitive to that.

Can I just ask you one summary question. Do any of you think this program is working as it should?

Dave, why don't I start with you.

Mr. ENNIS. I must confess I think the mechanics are doing their part. I must confess, and I am an elected official, that it seems to me that the politics have gummed up the works. I believe that if we were to go back to the drafters and say, have the machinery produced what you thought it would, I think the answer is honestly, yes. I think if it is a matter of negotiation between the White House and the Congress as to whether the share should go back that was originally intended, I think most of the citizens back there and most of the employers in the nation would say it should go back to the States.

But I do believe the designers of the legislation had the right idea. I think we have just managed to gum up the works and we would like to put some grease on the skids.

Acting Chairman DOWNEY. OK, Mr. Deisz.

Mr. DEISZ. Mr. Chairman, I think the system is working reasonably well. The problem we have, I feel, is that we do not have in

place an ongoing review that would be provided through a Federal Advisory Council. I think there are two principal issues there. One is the funding of the system. I am talking now about the total system—employment service training and all of those—that's a principal issue. But an equally important one, a coordination issue that was raised earlier, in many States the unemployment insurance system and the employment service system are usually operated jointly. In many States, however, the job training programs are part of another entity and the dislocated worker programs are part of another entity. And I think the tendency for any new responses to create yet another delivery mechanism is really counterproductive in addition to not achieving the shared overhead that requires additional resources just to coordinate between those.

Acting Chairman DOWNEY. Ray.

Mr. SCHEPPACH. Yes, I guess the point I would make is that the State system seems to be working relatively well. It is just when trying to get the Federal system with the State system that the thing tends to break down.

I think where the Governors are, they still want a fair amount of flexibility. You tend to want to move towards more constant eligibility in requirements across-the-board. All I can say is Governors have some problems with that. I think you have to realize that there are different tax climates in States and when you move in that direction you force Governors to raise taxes. You know, we lost 6 out of 23 last time, partly on the tax issue, so I think you have got to recognize that.

So it's that balance between flexibility in the State program and combining it with a sensible backup Federal program where the problem is.

Acting Chairman DOWNEY. You understand that I don't want to see the States, to the extent that we can prevent it here, having a bidding war for what sort of lousy unemployment program they can have, to attract business. To say, hey, you know, we don't pay unemployment benefits at all, and we don't tax you at all. That is one extreme.

That does not exist but there are States, in the case of Illinois for instance, that have automatic benefit reductions and tax increases when their accounts run dry. If you had to think of anything more counterproductive in a recession than reducing the benefits and raising the taxes, I could not think of anything more ridiculous.

That's our concern. We don't want to put the Governors in a position where they are going to fight us tooth and nail and we won't pass the bill, so we will be happy to work with you.

Mr. Grandy.

Mr. GRANDY. Thanks, Mr. Chairman.

I want to go back to this whole question of the employment service again. Mr. Deisz, the coordination of the employment service, JTPA, and the dislocated worker program is obviously a problem in more than one State. You mentioned, Mr. Ennis, that the employment service is in crisis.

I hope that whatever we do in this committee addresses that concern as much as whatever changes we make in the benefit structure, because without this employment service system we are just spinning our wheels. I wonder if either one of you or both of you

could comment on things you want to see change? Now, you have already mentioned in your testimony that the amount of personnel has been cut in half. And I guess you were talking about nationwide?

Mr. DEISZ. Yes.

Mr. GRANDY. That is 32,000 down to 17,000.

In North Dakota, what has happened?

Mr. DEISZ. Mr. Chairman, Representative Grandy, we are fortunate in North Dakota that the Governor and the legislature have opted to put all of those programs under one roof. Job service is the umbrella agency. We have unemployment comp, employment service, and all the job training programs and the dislocated worker programs.

What that has done principally because it enables us to first of all have that shared overhead. You know, we have got one computer system, one set of offices, and we are trying——

Mr. GRANDY. Excuse me, do you know how many States have done that? That seems like the obvious choice, but I would have to guess it's probably innovative.

Mr. DEISZ. I believe that in 30 States some parts of the job training partnership are also administered by the agency that administers the public employment service and unemployment compensation. I say, some parts, there are quite a few pieces to JTPA. I would guess there are probably a dozen that have gone to the extent that we have.

Mr. GRANDY. But to what extent are you impeded by the separation of these various entities that are supposed to be doing roughly the same work at the Federal level now? You have taken a smart step at the State level but how are you still impeded by what we are passing down from the Federal level?

Mr. DEISZ. Mr. Chairman and Representative Grandy, I think first of all we start with the perception that the Congress and the Department of Labor do not see the employment security system as an effective delivery system. One could argue that. If they did they would assign some of those responsibilities there.

I think the other thing is that as those programs are separately conceived, it would be my belief having been part of them that there is more incentive to operate them separately from the Federal direction than there is incentive to coordinate. It is almost like a game where the programs are dropped like puzzle pieces, and its up to the States to try to put the puzzle together.

When we have them under the direction of one agency, we find difficulty in merging the files, so to speak, on the computer, so that we can have one work history on somebody who is a claimant, who has applied for work, who has applied for training, who is now a dislocated worker.

That becomes very difficult just because of the regulations and the way the program is structured. So if you have a situation where different entities are operating those programs, that difficulty, obviously, is compounded. So, just having separate delivery mechanisms established, even though they technically can be combined, I would say creates a great deal of redundancy and failure to respond quickly.

Mr. GRANDY. There are no incentives at the Federal level, obviously, to combine and coordinate services, are there?

Mr. DEISZ. I am not aware of any. We occasionally see encouragement, a pat on the back if you do it, but there is no financial incentive or no statement that if you do such and such we will loosen up certain restrictions.

Mr. GRANDY. Do you want to expand upon your statement, Mr. Ennis, about the employment service system being in crisis and from a Delaware point of view, speak about your own State?

Mr. ENNIS. Thank you, very much, Mr. Grandy. We, in Delaware, are somewhat fortunate because we are small. And I think as has been explained, we are under one cabinet secretary for all of those employment training programs as well as the unemployment service.

I think, from the perspective of all the States, the uncertainty of whether the funds will be there when they are needed, although there had been an agreement, a partnership if you will, by three entities—that is the private sector agreeing to pay the funds that was levied, the Federal Government assessing and holding the funds and returning it to the States, and the States then administer to those offices. That uncertainty is the greatest crisis that I see before us today.

Within my formal testimony I make reference to a reserve fund that we would like to see set up. When Congress appropriates the funds in addition to the general expected money that there be some reserve fund that could be drawn upon when the States, by workload, can justify that demand. We, in Delaware, I think are fortunate. Many of the States are in worse shape than we because I described to you our unemployment rate jumped astronomically from 2.6 to 6 percent in 1 year. But the training necessary to employ the people to do the job properly is an incredible task, when you have that kind of workload.

We have two automobile assembly plants in one county. Average weekly claims are 7,000. When one plant goes down we put 3,500 people on the street. When two plants go down we put 7,000 more people on the street. You just have to have the flexibility of funds to put the people in the offices to handle that workload. You just can't wait for 6 months to get a supplemental appropriation at that point in time. I think that uncertainty is the thing we would love to see eliminated from the problem today.

Mr. GRANDY. Let me make sure I understand you about your reserves fund. You are talking about State administrative dollars that would go into a reserve fund to address this kind of coordination or flexibility problem?

Mr. ENNIS. We are suggesting that in the Federal budget—and it is on page 2 of my formal statement if you have it—that the reserve fund be set up by Congress. That is different than the buckets, as we refer to them, and that the idea here is that you know ahead of time, there's going to be peaks and valleys within the fiscal year. If I am not mistaken from the time that the fiscal year 1991 budget was recommended there were at least two increases in the unemployment projections before the budget was voted on.

Those things require movement, short-term movement that we just don't see in the system today. Some sort of reserve fund would

be a tremendous help if that could be triggered through Congress' threshold, not State legislatures' threshold, but Congress' threshold.

Mr. GRANDY. All right, I see your point there.

None of you have mentioned in your testimony nor in questions that you believe that at this point businesses should be required to pay more or higher levels of unemployment benefits and taxes to address this problem. It is a Federal/State problem that we're talking about. There was no vote at the Governors' conference to that effect, Mr. Scheppach?

Mr. SCHEPPACH. No, there was not.

Mr. GRANDY. Was there much discussion about that?

Mr. SCHEPPACH. More discussion on the administrative cost problems, the short-run problem, more on somewhat of the integration of services, what you're talking about although in a much broader environment.

Mr. GRANDY. So what we're talking about then is redefining the Federal/State partnership to make it more flexible and beneficial for you, as administrators, and for the people you are administering for.

OK, thank you, Mr. Chairman.

Acting Chairman DOWNEY. I would just point out that the flexibility is there. The problem is that the administration does not want to spend the money that is already there, so it's going to be hard for us to design a system in the future.

Mr. DEISZ. Mr. Chairman, could I have 1 minute? One important initiative that we're involved in that I think would be of interest to you and your committee is that I might describe the Department of Labor oversight and support of the public employment service during the last decade as benign neglect at best.

But, we, in the Interstate Conference have taken on an initiative. We have retained a marketing firm who has already begun their survey work to talk to employers large and small, and to talk to unemployed workers on a random basis—not the people who use us but just random—to find out what is it, how do they perceive the public employment service, what do they want from the public employment service, how can we do that job better? We are well into that project and we expect to have results late this summer and we would be very happy to share that with your committee.

Acting Chairman DOWNEY. We would certainly like to see that, thank you. We're about the business of empowering the unemployed, so we need as much help as we can get to do that.

Thank you, very much.

The subcommittee will next hear from the American Federation of Labor and Congress of Industrial Organizations, William Cunningham; the council of State Chambers of Commerce, Warren Blue, chairman, the Employee Benefits and Relations Committee. Mr. Blue is the senior vice president and general counsel of R.E. Harrington, Inc.; and Gary Burtless who is a senior fellow of the economics department of the Brookings Institution.

STATEMENT OF WILLIAM J. CUNNINGHAM, LEGISLATIVE REPRESENTATIVE, DEPARTMENT OF LEGISLATION, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

Mr. CUNNINGHAM. Thank you, Mr. Chairman.

Mr. Chairman, and Congressman Grandy, thank you, very much for having us testify here this morning. I represent the AFL-CIO who represent 14 million working men and women in the United States and unfortunately thousands of other people who are not working in the United States.

AFL-CIO Secretary/Treasurer Tom Donahue said that the safety net of unemployment compensation looks like "it was crafted by Edward Scissorshands gone berserk." There are tremendous holes and gaps in this program, as you well know.

As the subcommittee basically returns to this issue—and we are very glad that you have made it a high priority this year—we would focus your attention again on coverage: How many people get benefits, how many job losers actually get benefits. And an issue that has not been mentioned today because it is left in the hands of the State governments—the adequacy of UC benefits.

As you pointed out, the entire unemployment compensation benefit is now subject to full Federal taxation. In the list of things that members were interested in, you did cover the issue of initial eligibility, which is probably the key issue here. We have to look at how many people are covered, why they are not covered and how to get more people covered.

What has been ignored in the prior testimony is the adequacy of the benefit levels and you basically have ignored that. A group of workers who are unfortunately unemployed who were here earlier were very concerned about the extended benefits program. We support efforts to improve that program. We believe that we should be using the regular employment rate (TUR) rather than the insured unemployment rate (IUR).

As this committee knows the insured unemployment rate has some quirky aspects things where basically it starts the extended benefits program later in a recession and continues it after the recession is over. We think using the regular unemployment rate also would help people understand when IUR numbers are put out there that are totally irrelevant to what is published about unemployment.

The State solvency issue has not been addressed very clearly here. I think this committee has to look at that. The only Federal effort in this area is basically charging interest on borrowings and reduction in credit but most of the State systems are underfunded in terms of going into a recession. Although the GAO says 17 States may be borrowing, 6 are already and we believe that probably more will be in the borrowing mode coming to the Federal Government looking for loans which you in turn have to borrow.

The State unemployment compensation system and employment services, this issue has been carefully discussed by each of the people. Our concern here is that we represent workers who are basically either in receipt of outraged constituents, not getting their

benefits on time, or basically not being able to access the employment service.

It is our view that this system should be funded automatically. It would be commensurate with a person walking into a Social Security office and being told that they would have to wait 3 or 4 weeks for their first Social Security check. We believe that there is a way of doing that. We think it should be financed the same way the Social Security system is financed and, basically, that is an ability through the appropriations process to automatically give money to the employment service and to the unemployment compensation system that is virtually an entitlement but an automatic appropriation. So we don't have to go through this annual effort to get a supplementary appropriation every year, and we have the State legislatures coming up here asking for their money. It seems to us that this part of the problem is easily solved.

Our concern is once this problem is solved that other problems in coverage issue and the amount of the benefits may dwindle we think these are probably the most important issue to focus on.

My full testimony will be in the record.

Thank you, very much, Mr. Chairman.

[The prepared statement follows:]

91-02

**STATEMENT BY WILLIAM J. CUNNINGHAM, LEGISLATIVE REPRESENTATIVE
DEPARTMENT OF LEGISLATION
AMERICAN FEDERATION OF LABOR AND
CONGRESS OF INDUSTRIAL ORGANIZATIONS
BEFORE THE HOUSE WAYS AND MEANS COMMITTEE ON HUMAN RESOURCES
U.S. HOUSE OF REPRESENTATIVES
ON
UNEMPLOYMENT INSURANCE PROGRAMS**

FEBRUARY 6, 1991

Mr. Chairman, I appreciate this opportunity to present the views of the AFL-CIO on the serious problems in the nation's unemployment insurance system.

Unemployment insurance (UI) is the first line of defense for workers and their families when a breadwinner loses his/her job. It is a key part of the nation's "safety net" which helps workers and their families maintain a minimum standard of living when workers lose their jobs and their income. By helping maintain consumer buying power, UI benefits serve as a counter-cyclical stimulant when the economy goes into recession.

Unfortunately, the unemployment insurance "safety net" is full of holes. The situation is so bad that the AFL-CIO Secretary-Treasurer, Thomas Donahue, calls it a safety net "crafted by Edward Scissorhands gone berserk." The system has become woefully inadequate as a result of changes during the past 10 years; now, in the midst of recession and rising unemployment, the deficiencies of the UI system -- as income support for workers and their families and as a counter-cyclical economic stimulus -- are more apparent.

COVERAGE

Most important is the tragic failure of UI to provide income support for those who lose their jobs. Nearly two-thirds of all unemployed workers simply do not get any unemployment insurance benefits. Only one out of every three jobless workers gets UI benefits.

The wide disparity in coverage among the states is demonstrated by the percentage of jobless workers receiving UI benefits. In Connecticut it was 38 percent; Tennessee - 31 percent; New York - 71 percent; Texas - 21 percent; Washington - 39 percent; Michigan - 34 percent; Wisconsin - 42 percent; Florida - 20 percent; Iowa - 31 percent. [Data based on 10 year average between 1979-1989]

Let me provide further information:

In 1989, there was an average of 6,520,000 persons unemployed every month, but the number of persons getting unemployment insurance benefits every month averaged only 2,220,000. So, only 34 percent of all unemployed persons in 1989 were getting UI benefits.

In 1990, the average number of unemployed workers grew to almost 6.9 million a month. But those receiving UI benefits were less than 2.6 million. About 4.3 million unemployed Americans went without any jobless benefits in a typical month in 1990.

By contrast, during the 1975 recession, 75 percent of the unemployed were getting UI benefits, and during the 1982 recession 45 percent were getting benefits. Many of these workers have years of work experience but are denied benefits because of restrictive eligibility requirements.

A variety of sophisticated econometric studies will give you various reasons for this decline in the proportion of jobless workers getting UI payments. Changes in the geographic, industrial, and demographic make-up of the work force are among these reasons. But one of the most important reasons is that too many state legislators and too many state UI administrators adopt the employers' view that it is more important to keep UI taxes low and UI eligibility restrictions high rather than to help unemployed workers and their families with adequate UI payments.

In 1988, the Congressional Research Service study prepared for your Subcommittee noted that many state UI program characteristics are difficult to measure. "Statistical models have a difficult time pinpointing the policy changes that

could have played an important role in the declining jobless beneficiary rate." (CRS-4.15)

Nevertheless, the Congressional Research Service cited these state policy changes as contributing to the decline in the jobless beneficiary rate:

(1) Increased monetary eligibility requirements in some states;
(2) Reductions in maximum duration of benefits receipt; and
(3) Tightening of job search requirements. (CRS-4.13)

However, the bottom line is that most jobless workers will not receive unemployment benefits. We think this is wrong and unacceptable.

UI BENEFIT LEVELS

Even those jobless workers lucky enough to get UI benefits do not do very well. They end up getting an average of only one-third of their previous earnings. That is certainly not substantial replacement of wage income and it is far less than the 50% average recommended by the National Commission.

The average weekly UI benefit is just $161 a week. This is only 37 percent of the $433 average weekly wage in covered employment.

As you will note on the table which I have attached to my testimony, there is a wide range of maximum and average weekly UI benefits among the various states. But in all states, the average weekly benefit is far below the average weekly wage in covered employment. There's simply not enough replacement of workers' wage income to maintain a decent standard of living. We believe benefits should be at least 50 percent of a worker's previous wage, up to a maximum of 67 percent of the state's average weekly wage. For example, the weekly benefit level for Connecticut was $195; (only 36 percent of the average weekly wage). There are similar figures for Tennessee - $113 (30 percent of the weekly wage); New York - $181 (34 percent of the weekly wage); Texas - $162 (39 percent of the weekly wage); Washington - $169 (40 percent - of the weekly wage); Michigan - $208 (44 percent of the weekly wage); Wisconsin - $167 (43 percent of the weekly wage); Florida - $144 (37 percent of the weekly wage); and Iowa - $157 (34 percent of the weekly wage). [Data based on 10 year average between 1979-1989]

Our unemployment system is a federal/state system. State legislatures decide how big UI benefits will be, how long benefits are paid, who is eligible, and how much employers will pay in state UI tax. It should be no surprise, therefore, that employers are very successful in keeping state UI eligibility standards very restrictive, so that few people will qualify for UI benefits. And it is no surprise that employers successfully press for low UI taxes, low UI benefits and short duration of UI payments.

"Experience rating" -- which means lower UI taxes for employers with lower layoff rates -- demonstrates that employers have a vested interest in keeping UI eligibility requirements very restrictive and keeping unemployed workers from getting UI benefits.

EXTENDED BENEFITS

Furthermore, the UI system does not effectively cope with long-term unemployment. Almost one-third of those who do get UI payments exhaust their benefits before they find a job. Unrealistic and unworkable triggers for extended benefits have the effect of denying benefits to most long-term unemployed workers.

In 1990, there were 2,300,000 jobless workers who used up all of their unemployment benefits. This was a 16 percent increase in the numbers of workers who exhausted UI benefit.

Long-term unemployment raises the number of people who exhaust their UI benefits before they find a job. For the 12 months ending in June 1990, there were more than 2 million workers in this situation, 28 percent of all workers who got "first payments" of UI benefits during that period.

In New York, the exhaustion rate was 33 percent; in Ohio 22 percent; in Tennessee 26 percent; in Florida 39 percent; in California 29 percent; and in Colorado 34 percent. [Based on 10 year average for 1979-1989]

The important point to draw from these numbers is that a substantial number of those workers, lucky enough to draw unemployment insurance benefits, use up all the

benefits to which they are entitled under state law before they find a job. These workers and their families need extended UI benefits to help them through the personal and family crisis of long-term unemployment.

The existing Insured Unemployment Rate (IUR) trigger for activating extended unemployment compensation benefits is unrealistic and unworkable. No states now are triggered "on" for extended benefits but it is reported that Alaska and Rhode Island might this month. The effect of the present extended benefits trigger is to deny benefits to most long-term unemployed workers.

The present trigger allows a state to extend UI benefits for a 13-week period (1) if the state's 13-week average IUR is at least 120 percent of the average of its 13-week IUR during the same 13-week calendar period over the last two years and the current 13-week average is at least 5 percent; or (2) at the state's option, if a state's current 13-week average IUR is at least 6.0 percent. Most states have adopted the 6 percent trigger. The trigger goes "off" and extended benefits end when the state no longer meets these requirements.

The Insured Unemployment Rate is simply not a realistic picture of total unemployment in the U.S. generally, nor in the various states. The 1988 Congressional Research Service study for your Subcommittee suggests that the IUR no longer accurately reflects labor market conditions, (CRS-6.10), and added "The reliance on a states's IUR as a trigger for extended benefits limits the availability of the program for states experiencing rising unemployment levels and increases in long-term unemployment." A recession simulation by the Congressional Research Service indicated very slow and inadequate triggering-on during a recession and excessively fast triggering-off following a recession.

The IUR is far below the Total Unemployment Rate (TUR); and, therefore, the IUR is a poor indicator of the level of unemployment. Furthermore, the IUR is excessively and wrongly stable when the TUR goes up. The IUR simply fails to reflect current conditions of unemployed.

Some state comparisons for December 1990 illustrate the vast difference between the Insured Unemployment Rate (IUR) as compared to the Total Unemployment Rate (TUR). In California, when the TUR was 7.1 percent, the IUR was 3.2 percent. In Florida, when the TUR was 5.5 percent, the IUR was 1.7 percent. In New York State, when the TUR was 5.5 percent, the IUR was 2.8 percent. In Ohio, when the TUR was 5.8 percent, the IUR was 2.2 percent. In Massachusetts when the TUR was 7.4 percent, the IUR was 3.6 percent. In Michigan when the TUR was 7.3 percent, the IUR was 3.2 percent. In Texas when the TUR was 7.2 percent the IUR was 1.7 percent.

These state comparisons make it clear that the Insured Unemployment Rate is unrealistic and unworkable as an indicator of state unemployment conditions. If triggers must be used to determine when a state can activate extended unemployment benefits, then the Total Unemployment Rate is the obvious and logical measure.

STATE SOLVENCY

Unfortunately state trust fund accounts from which UI benefits are paid, are in terrible shape to deal with recession and high unemployment. The General Accounting Office has detailed for this Subcommittee the failure of many states to accumulate sufficient reserves during the years of economic growth to pay UI benefits during recession years. The GAO noted that a severe recession in 1991 will force 22 states borrow more than $17 billion to keep up their UI benefit payments.

The May 1990 GAO report warned that the probable result of state UI trust fund insolvency in 1991 would be (1) intensified action by the states to make it more difficult for workers to qualify for UI benefits: (2) continued state action to restrict the size and duration of UI benefits; and (3) perhaps even higher state UI taxes on employers.

All these actions in time of recession would be contrary to the two key purposes of the unemployment system: first, to provide cash benefits and income support to unemployed workers; and second, to help stabilize the economy during recession by helping to maintain consumer buying power.

For many states this problem will be very serious since they may not be able to repay the loan during the current fiscal year and will be required to pay interest on the outstanding debt.

STATE UNEMPLOYMENT COMPENSATION & EMPLOYMENT SERVICES

Yet another UI problem relates to appropriations and inadequate funding provided by the federal government for administration of state unemployment insurance and employment services. The tragic effect of this under-funding for administration at the state level is a reduction of services to jobless workers at a time when they are most in need.

Administrative funding shortfalls and instability in local offices serving unemployed workers have grown in recent years. Offices are closed, hours of service are shortened, and experienced UI staff are laid off. This makes it increasingly difficult for jobless workers to collect the UI benefits to which they are entitled and to receive the counseling and assistance to help them become reemployed.

For example, in Michigan workers claiming UI benefits are waiting up to five weeks for their first check. In Maine, workers are waiting three to four weeks for a check. As the recession gets worse and unemployment rises, we will see longer lines at overcrowded UI offices, more offices closing, and more service breakdowns like the January failure of New York State's computer system because of an unmanageable overload of UI claims.

One productive approach to increase federal resources for UI administrative funding would be to increase the taxable wage base to 65 percent of the average annual wage as recommended by the National Commission on Unemployment Compensation. Under this proposal, the taxable wage base in 1990 would have been $14,770 instead of the present inadequate federal base of $7,000. It would improve the solvency of the state benefit trust fund by enabling states to set tax rates that are far less regressive and provide for adequate funds for the administration of this program.

I recognize that administrative funding for the UI system is not a direct problem before this Subcommittee, but we urge the Congress to take action necessary to keep the system operating effectively in getting UI payments to jobless workers in time of personal and family crisis.

In conclusion, Mr. Chairman, if Members agree with the objectives of unemployment compensation system (income replacement for jobless workers and counter-cyclical assistance for communities) then the existing unemployment compensation system falls far short of these goals. The problems with eligibility standards, benefit levels, disqualification periods, a flawed extended benefits program, inadequate funding of the state unemployment compensation and employment services and the financial solvency of the state trust funds all require urgent Congressional action.

Mr. Chairman, we appreciate your leadership and the interest of this Subcommittee in maintaining and improving the nation's unemployment insurance system. The AFL-CIO is eager to work with you and with the members of the Subcommittee and the Subcommittee staff to advance sound legislation in this area.

Thank you.

Enclosure:

I respectfully request that the following attachments be included in the record of your hearings:

(1) Unemployment Insurance Under State Laws, January 1, 1990;
(2) "Unemployment Insurance Aiding Fewer Workers," New York Times, December 2, 1990;
(3) "On the Edge of Despair When Jobless Benefits End," New York Times, January 28, 1991.
(4) The AFL-CIO 1989 Convention Resolution on Unemployment Compensation.

Unemployment Insurance Under State Laws, Jan. 1, 1990

	Jurisdiction (Ranked Highest to Lowest by Maximum Benefit Within Regions)	Maximum Weekly Benefits[1]	Average Weekly Benefit Paid for Total Unemployment FY '89[1]	Average Weekly Wages in Covered Employment[2]	Average Weekly Benefit as a Percentage of Average Weekly Wages[3] FY '89	Percent of Unemployment Insurance Recipients Exhausting Regular Benefits[4]	Regular Duration of Benefits, by Weeks[5]	Percentage of Claimants Who Exhausted Benefits FY '89	Average Employer Tax Rate, 1989 (Estimated) Percentage of Taxable Payrolls 1989	Percentage of Total Payrolls 1989	Taxable Wage Base
	United States	$ —	$146	$418	35%	33%	—	28%	2.1%	0.8%	$ 7,000
Region I	Michigan	275	196	467	42	30	15-26	32	3.8	1.4	9,500
	Wisconsin	225	158	381	41	34	13-26	22	3.1	1.4	10,500
	Illinois	199-260	156	454	34	28	26	33	3.0	1.1	9,000
	Indiana	96-161	105	364	27	21	9-26	22	1.4	0.5	7,000
Region II	Kansas	216	165	364	45	33	10-26	30	2.5	1.1	8,000
	Arkansas	215	131	325	40	28	10-26	25	2.1	1.0	7,800
	Oklahoma	197	143	364	39	19	20-26	33	2.4	1.1	9,500
	Missouri	180	126	360	33	31	11-26	26	1.7	0.5	7,000
Region III	District of Columbia	293	202	553	37	49	26	49	1.8	0.5	8,000
	Pennsylvania	260-266	176	414	43	46	16-26	23	3.5	1.3	8,000
	West Virginia	245	143	372	38	25	26	23	2.3	0.9	8,000
	Delaware	225	166	426	39	37	24-26	11	2.5	1.0	8,500
	Maryland	205	166	419	40	24	26	23	1.3	0.4	7,000
	Virginia	176	141	398	35	19	12-26	15	0.7	0.3	7,000
Region IV	Texas	217	159	405	39	17	9-26	39	2.7	0.9	9,000
	Louisiana	181	102	370	28	22	8-26	32	3.2	1.4	8,500
	Mississippi	145	109	315	34	24	13-26	26	1.3	0.6	7,000
Region V	North Carolina	238	150	358	42	30	13-26	13	0.8	0.4	11,100
	Florida	200	142	375	38	20	10-26	37	0.8	0.3	7,000
	Georgia	175	136	383	35	21	9-26	21	1.5	0.6	8,500
	South Carolina	165	123	347	35	26	15-26	19	1.9	0.8	7,000
	Alabama	150	110	360	31	23	15-26	19	1.8	0.8	8,000
Region VI	Hawaii	256	170	385	44	44	26	17	1.3	0.9	19,900
	Nevada	194	153	396	39	26	12-26	21	1.4	0.8	13,300
	California	190	123	465	26	41	14-26	29	2.2	0.7	7,000
Region VII	New Jersey	279	189	486	39	46	15-26	36	2.0	0.9	13,900
	New York	245	171	507	34	78	26	34	1.8	0.5	7,500
	Puerto Rico	110	76	228	33	17	20	55	5.4	2.9	7,000
Region VIII	Massachusetts	272-408	207	488	44	45	10-30	32	2.3	0.8	7,000
	Rhode Island	258-323	173	390	44	68	15-26	28	2.5	1.4	13,800
	Connecticut	252-302	184	509	36	46	26	20	1.8	0.5	7,100
	Maine	180-270	149	350	42	46	15-26	20	2.3	0.9	7,000
	Vermont	176	140	361	39	34	26	12	3.0	1.2	8,000
	New Hampshire	182	128	401	32	24	26	2	0.8	0.3	7,000
Region IX	Oregon	238	158	375	42	38	9-26	22	3.1	1.9	16,000
	Washington	237	156	388	39	38	16-30	26	2.6	1.8	16,200
	Idaho	200	130	337	39	41	10-26	27	2.2	1.5	17,400
	Montana	180	122	319	38	24	8-26	33	1.5	1.1	13,200
	Alaska	188-260	157	537	29	36	16-26	42	4.8	3.3	21,300
Region X	Kentucky	186	126	356	35	26	15-26	20	2.0	0.7	8,000
	Ohio	184-291	125	414	30	27	20-26	22	2.6	0.9	8,000
	Tennessee	180	110	365	30	38	12-26	26	1.8	0.6	7,000
Region XI	Colorado	224	161	412	39	24	13-26	32	1.8	0.8	10,000
	Utah	214	157	358	44	21	10-26	28	1.8	0.9	14,000
	Wyoming	200	150	363	44	16	12-26	28	3.2	1.8	10,400
	New Mexico	170	125	345	36	23	19-26	32	1.5	1.0	11,500
	Arizona	156	127	392	32	23	12-26	30	1.2	0.4	7,000
Region XII	Minnesota	255	179	414	43	29	10-26	29	2.1	1.0	12,900
	North Dakota	187	125	314	40	21	12-26	40	2.4	1.3	11,500
	Iowa	181-222	153	345	44	24	11-26	22	2.0	1.1	11,900
	South Dakota	140	116	291	40	12	18-26	11	0.5	0.2	7,000
	Nebraska	134	117	327	36	22	20-26	11	1.5	0.6	7,000

[1] Fiscal year ending September 1989—latest data available.
[2] Where two figures are shown, the larger includes maximum dependents' allowances.
[3] Where two figures are shown, the lower represents the shortest possible duration. In most states this is the entitlement of a claimant with minimum weekly benefits and minimum qualifying wages.
[4] Maximum weekly benefit is a specified percentage of average weekly covered wages and is computed annually, or in a few States semi-annually. Since the base year used for setting the maximum is not necessarily calendar 1989, the percentage figures may vary from statutory percentages.
[5] For the twelve months ending March 1990.

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Sunday, December 2, 1990

Unemployment Insurance Aiding Fewer Workers

By DAVID E. ROSENBAUM
Special to The New York Times

WASHINGTON, Dec. 1 — The unemployment insurance system, the main Government program meant to ease the pain of recession, is much less effective than it used to be, largely because the Federal Government and the states have let it wither rather than raise taxes to sustain it.

As a consequence, barely one-third of the jobless are now receiving unemployment checks. Experts say that proportion will not rise much even if the country enters a severe and prolonged recession, a prospect many economists and politicians believe is not beyond possibility.

At the depth of the recession in 1975, more than three-quarters of the people out of work received unemployment benefits from the Government. In the last recession in 1982, about half got benefits.

"When this recession hits," said Representative Thomas J. Downey, "unemployment insurance is not going to be the effective tool it could and should be. A lot of innocent people are going to be hurt because of our inaction." Mr. Downey, a Democrat from Long Island, is acting chairman of the House Ways and Means Committee's Human Resources Subcommittee, which has jurisdiction over unemployment compensation.

Sentiment against higher taxes is so strong in Washington and across the country that chances are slim the system will be made more generous. Many states may actually tighten eligibility requirements or lower payments next year if the demand for benefits rises.

That could make economic conditions worse, many economists believe. Providing billions of dollars in additional unemployment payments is one way the Government can put money in people's pockets during bad times, slowing the decline in consumption and hastening a recovery.

A Cushion for the Jobless

The unemployment compensation system was established in 1935 by the same law that created the Social Security system. The theory behind unemployment insurance was the same then as now: to provide a temporary cushion for people out of work and to act countercyclically against the economy by making more money available for consumption when unemployment rates were high.

From the beginning, Social Security was administered nationally and paid for by a Federal tax. The unemployment system, by contrast, was delegated to the states, which, within broad Federal guidelines, were given the right to set their own eligibility and benefit standards and to set the level of the tax they imposed on businesses to raise the money.

As the law stands now, all states must require employers to impose a tax of at least eight-tenths of 1 percent on each employee's first $7,000 of pay. But beyond that, the states are free to go in different directions.

Most states base the tax rate on each business's record of laying off workers. Employers that lay off a large percentage of workers and, thus, have many claiming benefits pay a higher tax, and those whose employees make few claims pay the minimum. In three states, Kentucky, Tennessee and Michigan, the rate can be as high as 4.6 percent for employers with the worst records of layoffs. In New York, no employer pays more than 1 percent.

In 36 states, but not New York, the wage base on which the tax is paid is higher than $7,000. The average nationally is about $8,500. But a few go much higher, up to $21,300 in Alaska.

Benefits Vary

The benefits and the duration for which workers are paid also varies considerably. Most states tie benefits to the amount of wages last earned and the length of time worked for the last employer. Longtime employees can generally get 26 weeks of benefits. In 1989, the average weekly payment was $152; the maximum was $408, in Massachusetts.

But the size of the benefits is not what concerns the critics. As a rule, benefit levels have kept up with inflation over the years, averaging about 35 percent of what workers were earning at their last jobs. What the critics find worrisome is that with each passing year, fewer workers are eligible for any benefits.

That has occurred for two main reasons, said Wayne Vroman, an economist at the Urban Institute, a private research center in Washington. Mr. Vroman, who is working on a study for the Labor Department, has done more analyses of this subject recently than any other economist.

First, he said, most states have tightened eligibility requirements in recent years, requiring workers, for example, to work longer and earn more before they qualify and generally denying benefits altogether to those who were not laid off but quit their jobs voluntarily.

The states did this mostly to avoid raising the taxes they charge employers. Businesses argue, and many politicians agree, that a lower unemployment insurance tax improves the business climate of a state and makes it more attractive to companies that might wish to come there.

Changes in Work Force

The second main reason for the decline in eligibility is that the nature of the work force has changed markedly in the last two decades. Fewer people are in manufacturing jobs, and many more are in services. Service industry employees tend to earn less and change jobs more frequently. Many, especially women, have taken time off from steady work or are part-timers who have not worked enough hours or earned enough pay to qualify under the more stringent rules.

In addition, service workers are less likely to be unionized, and that has made employers bolder in challenging claims in an effort to keep their layoff record cleaner.

"It is almost unheard of for General Motors or Ford to file a challenge, but the fast-food chains do it all the time," said Walter S. Corson, an economist at Mathematica Policy Research, who has also studied the system's shortcomings for the Labor Department.

During recessions, the proportion of the unemployed entitled to benefits tends to be higher than it is during good times. But Mr. Vroman has found in his studies that even if the unemployment rate, 5.7 percent last month, rose as high as 9 percent, indicating a serious recession indeed, only 36 percent to 38 percent of those out of work would be eligible for unemployment checks.

The budget rules that Congress approved last month could worsen the situation. In past recessions, laws were enacted that extended the duration of unemployment benefits from 26 weeks to 52 weeks, with the Federal Government picking up most of the additional cost. The new budget rules require any increase in benefits to be accompanied by a spending cut or a rise in taxes that balances out the cost of the benefits. Those are steps President Bush and Congress are not likely to take.

Michael J. Boskin, chairman of Mr. Bush's Council of Economic Advisers, said in an interview that the Administration had no plans to extend unemployment payments, although he said he could not completely rule it out if a deep recession developed.

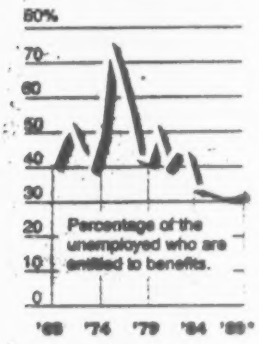
In each of the last two years, when the unemployment rate was low, Representative Downey proposed legislation that would raise the minimum wage base to $10,000 nationally from $7,000. He argued that when the economy was healthy, states should beef up their benefit funds, which in many cases are in shaky financial condition. But he faced solid opposition from Republicans and Southern Democrats and never had the votes to get his bill out of the Ways and Means Committee.

Opponents contended that higher taxes hurt business and that better benefits merely encouraged people to remain unemployed.

Mr. Downey said he intended to offer his bill again next year, but he said he had no confidence it would be enacted.

"It's a classic economic march of folly," Mr. Downey said. "We knew what was wrong going into this recession, but now we're going to be completely unprepared."

Eligible for Benefits



* Latest available figure.

Source: Labor Dept.

The New York Times

The Cost of Unemployment Benefits

Amount and duration of weekly unemployment benefits paid by each of the 50 states in 1989.

State	Avg. Weekly Benefit ($)	Avg. Duration (Weeks)	State	Avg. Weekly Benefit ($)	Avg. Duration (Weeks)
Ala.	$108	9	Mont.	$131	13
Alaska	157	14	Neb.	119	10
Ariz.	130	13	Nev.	153	12
Ark.	131	12	N.H.	127	6
Calif.	120	14	N.J.	192	14
Colo.	160	12	N.M.	125	16
Conn.	191	12	N.Y.	165	16
Del.	163	9	N.C.	148	7
Fla.	145	12	N.D.	134	13
Ga.	136	9	Ohio	129	12
Hawaii	176	11	Okla.	145	13
Idaho	139	11	Ore.	154	13
Ill.	159	16	Penn.	181	14
Ind.	104	10	R.I.	181	13
Iowa	155	11	S.C.	120	9
Kan.	167	13	S.D.	119	11
Ky.	126	11	Tenn.	109	11
La.	105	15	Texas	160	14
Me.	148	11	Utah	160	11
Md.	167	13	Vt.	140	11
Mass.	211	15	Va.	141	12
Mich.	190	12	Wash.	166	15
Minn.	184	13	W.Va.	140	13
Miss.	109	12	Wisc.	155	13
Mo.	127	12	Wyo.	160	14

Source: Labor Dept.

The New York Times

THE NEW YORK TIMES **NATIONAL** MONDAY, JANUARY 28, 1991

On the Edge of Despair When Jobless Benefits End

By STEVEN A. HOLMES
Special to The New York Times

TROY, Ohio, Jan. 25 — Swollen and weary in her ninth month of pregnancy, 28-year-old Lisa Bramlette sat chatting at her kitchen table while her 5-year-old son, Tyler, romped around the house in a Teen-Age Mutant Ninja Turtle outfit.

Mrs. Bramlette's mother, Edith Crowell, was by her side in case labor began because Mrs. Bramlette's husband, William, was more than 1,000 miles away in Florida. "He doesn't know what's going on with me," Mrs. Bramlette said. "While he's down there working, he doesn't know if I'm in labor or if the baby's here until I call him at $ 30 each night."

Laid off a year ago from his job at Dinner Bell Foods, a local meat packing plant, Mr. Bramlette has been taking odd jobs ever since he exhausted his unemployment insurance benefits in July. Recently, he and a friend were hired by a local woman to help her parents pack up their home in Clearwater, Fla., and move back to Ohio.

"This really stinks," Mr. Bramlette said by telephone from Clearwater. "I really don't like it, but you have to do what you have to do, and we need the money."

Running Out of Benefits

The 40-year-old Mr. Bramlette is one of about 2.3 million jobless people nationwide who used up all their unemployment benefits in 1990, a 16 percent increase over the year before. The number is expected to jump again this spring when those who were laid off as the recession took hold in recent months begin to run out of benefits.

In addition, a recent study by Mathematica Policy Research, based in Princeton, N.J., determined that 75 percent of the unemployed had not found work four weeks after their benefits had expired, and 60 percent were still jobless 10 weeks after depleting their benefits.

Yet, unlike its actions in the recessions of 1975, 1980 and 1982, Congress has not acted to extend unemployment benefits beyond the maximum period allowed by individual states. At present, 48 states provide unemployment compensation for a maximum of 26 weeks. Massachusetts and Washington allow a maximum of 30 weeks.

Any benefits paid beyond the states' maximum period are shared by the states and the Federal Government. But changes in Federal law in the 1980's made it more difficult for states to pay benefits beyond the basic period, and no states are currently paying those extended benefits. In contrast 30 states paid extended benefits in 1982.

Representative Thomas J. Downey, a Suffolk Democrat who is acting chairman of the Ways and Means Subcommittee on Human Resources, which has jurisdiction over unemployment compensation, said he would introduce legislation next month to ease the restrictions on states' payment of extended benefits.

"We have consciously denied people the benefits they need and deserve," he said.

Photographs by Mark Lyons for The New York Times

Daniel Dever, who lost his job boning hams at Dinner Bell Foods a year ago, now works part time at a carwash, earning $4.16 an hour. He sat with his wife, Dorena, their daughter and his two stepsons at his Troy, Ohio, home, on which he has been unable to make mortgage payments for three months.

Thousands of Job Applications

Any liberalizing of the law could have a significant effect on Troy, a blue-collar town set amid cornfields 20 miles north of Dayton. In December, the jobless rate for Miami County, where Troy is the county seat, was 6.1 percent, matching the national average, but above the 5.8 percent mark for Ohio as a whole.

For many in Troy who have bleak job prospects and have depleted their unemployment benefits, life seems perilously close to the financial and emotional edge. Bills go unpaid, houses and automobiles remain in need of repair, medical insurance is allowed to lapse and self-confidence is damaged.

Six years ago, when she had her first child, Mrs. Bramlette quit her job in her third month of pregnancy. This time she continued to work as a sales representative for an insurance company until Thursday, four days after the baby was due. Even so, the Bramlettes were $300 behind on their utility bill and got through Christmas only by using food donated by Mr. Bramlette's former union.

The pressure was too much for Mrs. Bramlette. On the night before Mr. Bramlette left for Florida, she erupted, pouring out her anger and frustration until 3 A.M.

"I'm holding down the fort," she complained the other day, her blue eyes blazing. "I'm paying the bills. I'm paying his child support. I'm keeping things together. I'm pregnant. I'm tired, and I can't do it all."

In good years, Daniel Dever, 34, earned $20,000 to $25,000 a year boning hams at Dinner Bell Foods. After he lost his job a year ago, he collected $257 a week in unemployment benefits until the end of July. Since then, he has worked three days a week at a local carwash when the weather is good enough. He earns $4.16 an hour.

His family gets by with the income from Mr. Dever's two stepsons who live with him in his three-bedroom home. One earns $7 an hour at a local fiberglass factory and the other makes $4 an hour at another factory. But even with his stepsons' earnings, Mr. Dever has not paid his $407 mortgage payment in three months and is afraid he might lose his house.

For Mike and Gail Lee, the concern is staying healthy. "We don't have any health insurance," said Mr. Lee, 42. "If either one of us gets sick, everything will be gone." Until Mrs. Lee recently got a job earning $64 a week as a part-time teacher's aide, the Lees had been out of work for more than a year. Their

(MORE)

The New York Times NATIONAL, Monday, JANUARY 28, 1991

Lisa Bramlette, who is nine months pregnant, sitting in the kitchen of her Troy, Ohio, home with her son, Tyler. She worked as a sales representative until last week, when her baby was due. Her husband, one of 2.3 million jobless people who used up their unemployment benefits in 1990, has done odd jobs since being laid off from a meat-packing plant.

The New York Times

Troy's 6.1 percent jobless rate matches that of the nation.

unemployment checks stopped coming last fall.

The Lees have been able to hold onto their house by taking in Mrs. Lee's son by a previous marriage and his wife, who both hold temporary jobs. "I don't want to lose my home and all the stuff we have," said Mrs. Lee, her voice cracking. "But how do we get out of this situation? I don't know if we will."

So far, Wayne Larck, 40, does not have the same sense of desperation as the Lees, though he has traveled throughout the area looking for work. Unlike the Lees, Mr. Larck has paid off the mortgage on his home, and his jobless benefits just expired last month.

Nonetheless, after he pays his next property tax bill, Mr. Larck said his savings will be nearly depleted. To save money, he and his wife, Gloria, 41, eat only one meal a day. Despite his own troubles, Mr. Larck says he is more concerned about his son, Donald, who is with the Army in Saudi Arabia. "So far, we worry about our boy more than anything else," he said.

Miscalculations and misinformation have contributed to the plight of some of the former Dinner Bell workers whose unemployment checks have stopped. Mr. Dever, for example, has not applied for welfare or food stamps, believing that he is ineligible because he owns his house. Officials at the Ohio Department of Human Services say home ownership does not necessarily disqualify a person from receiving public assistance or food stamps.

Rather than looking for another job immediately after he was let go, Mr. Lee bought a restaurant in Springfield, Ohio, 21 miles from Troy. He lost $15,000, virtually his life savings, when it failed. By the time he began searching for work, the recession had taken hold and job prospects had dried up.

"I've just got to find a job or it's not going to work at all," he said softly. "I have to find a job."

Adopted by the AFL-CIO
Eighteenth Constitutional Convention
November 1989, Washington, D.C.

Unemployment Insurance

The nation's unemployment insurance system is failing its mission to provide a cushion for those in our society who have lost their job. For the past five years just one-third of the jobless have received benefits under this program. Last year nearly 70 percent of the unemployed got nothing. Without substantial reform, the unemployment insurance system will be unresponsive to demands in future recessions and will be unable to provide the countercyclical stimulus to the economy that is a hallmark of the program.

The AFL-CIO has urged Congress to reform the unemployment insurance system. Intentional underfunding of state benefit trust fund accounts has resulted in severe restrictions on eligibility and has encouraged states to keep benefit payments low. Federal minimum standards for benefits and financing are desperately needed to protect the unemployed. The AFL-CIO strongly supports indexing the federal taxable wage base to provide a fixed statutory relationship between earnings and the way funds are accumulated to support benefits when those earnings are disrupted. Indexing the federal taxable wage base at 65 percent of the average annual wage is a moderate, reasonable step to provide the underpinnings for a sensible jobless insurance scheme.

The AFL-CIO believes that the Extended Benefit program, which for all practical purposes is inoperative today, must be reformed by making the system more responsive to the problems of long-term joblessness. We believe that if the extended benefits program must rely on triggers, reform must move away from, or even abolish, reliance upon the insured unemployment rate (IUR) in favor of the total unemployment rate (TUR). Despite some problems and inequities that are certain to occur, we endorse the notion that a TUR for local labor market areas (or sub-state triggers)—even if dependent upon a discretionary act by the governor of the state—ought to be another avenue available to activate extended benefits.

The failure to adequately fund the administration of the UI and Employment Service system has resulted in serious problems for policy makers, for state agencies and their employees, and for the people they are pledged to serve. Reform in financing the administration of the unemployment insurance system must involve an increase in the federal taxable wage base. This would enable Congress to appropriate more adequate amounts for the operation of the program while allowing the necessary and continued build-up of funds in the federal accounts. The Department of Labor should establish basic levels of administrative support that would be consistent regardless of the condition of the economy. The distribution formula can be adjusted to give states better planning capabilities and assistance in computerization efforts.

Acting Chairman DOWNEY. Thank you, Mr. Cunningham.
Mr. Blue.

STATEMENT OF WARREN BLUE, CHAIRMAN, EMPLOYEE BENEFITS AND RELATIONS COMMITTEE, COUNCIL OF STATE CHAMBERS OF COMMERCE; AND SENIOR VICE PRESIDENT AND GENERAL COUNSEL, R.E. HARRINGTON, INC., WESTERVILLE, OHIO

Mr. BLUE. Mr. Chairman, as you mentioned before my name is Warren Blue and I am senior vice president and general counsel of a company headquartered in Columbus, Ohio. We have about 1,100 employees and we also administer unemployment programs for companies all over the United States. Bill Brown is sitting behind me. Bill just retired as the president of the Council of State Chambers of Commerce and he is now a consultant to the council.

Speaking on behalf of the employer community—and I am glad to be the individual who is doing that for this panel—we believe that the State/Federal partnership as it exists is working and working well for what it was designed to do. States making the decision as to how the taxes will be financed, through a merit-rated program—which by the way is required by Federal law—is appropriate.

The Federal Government, having tax capability through the FUTA account to lend money to States in cases of emergency, is appropriate. I think I should point out that the repayment provision of the Federal law when it is required that the State borrow money is really countercyclical. The repayments, themselves, which trigger on additional taxes on the employer starting at three-tenths of 1 percent and working up, normally would not occur until well after the recessionary period has disappeared if the 18-month period is adequate. For the most part, the State repayments don't really start until about a year and a half until after the money is borrowed if they ever are repaid at all, because they have a provision for paying it back.

Also the provision in the Federal law requiring the States to pay interest on moneys they borrow is appropriate. I think that is a deterrent for the States, and requires then that the States look at their program and try to finance it themselves.

State decisions on weekly benefit amount, on eligibility, on disqualification, are all appropriate. That's the way that the system was set up and that's the way the system is working and it's working well. The funding of the FUTA program, the money that is used to pay for those States that borrow is there. We have an indication from the UI Outlook, the Department of Labor study on this that there will be $3.3 billion there at the end of this year, even with some borrowing which they anticipate. And at the end of 1993, almost $5 billion.

I think it's interesting to note that the three accounts that are used by the Federal Government to fund their portions of this program at the end of this year will exceed $14.84 billion. I realize, Mr. Downey, that is a nice plum to be used for making payments and I understand your position on triggering benefits sooner, but I think these programs are set up for specific purposes and that is what they should be used for.

We also think there should be a limitation on the employer involvement, the employer payment. I think the situation as it now occurs, which in most States is 39 weeks—there are 26 weeks of regular benefits and 13 weeks of triggered benefits—is correct. Also I think the fact that 10 States will be triggering on in this recession shows that the system is working.

I recognize that there will be some people who would like to have more States triggered on. Congress made the decision on the 5 or 6 percent insured rate as to when it should happen and we will work with Congress to see whether that should be revised, but at the moment we are pretty well satisfied with the way it is working.

Let me just take one minute and tell you about the State that I come from, because this is a State/Federal program, and States take responsibility for what they do. In my written testimony you will see that I have talked about what Ohio did. At one time, Ohio was in this list of States that was going to have to borrow money, isn't it interesting it is not there any more. And it is not there any more for a reason.

A bill called House Bill 826, which by the way is a bill agreed to in a bipartisan committee, the advisory commission set up by Governor Celeste a number of years ago which Democrats, Republicans, labor and employers all participated in. They made a decision as to what Ohio had to do to be sure that they had sufficient funding to run their unemployment program.

They did a lot of things and I am going to just mention a few. Increased the wage base to $9,000 over a period of years, established a new formula for what is called the minimum safe level. I should point out the minimum safe level figure in Ohio is not related to the most recent 12-month payout, the largest payout. If they had used the most recent 12-month payout in Ohio to make a decision as to what the minimum safe level would be in Ohio, the figure would have exceeded $2 billion and nobody on that committee felt that it was necessary for Ohio to have in excess of a $2 billion minimum safe level. They expanded the tax rates, they expanded the top, they expanded inside the tax rates so that they could raise more money.

So Ohio is one of the big payment States as far as benefits are concerned and Ohio has taken care of its problem. I talked to the Ohio Bureau of Employment Services before I left and they do not anticipate for any reason whatsoever why Ohio should have to borrow money this year.

As far as the gap is concerned—I guess my time is up so I'm going to stop, but the gap has been discussed and I think we agree about the reasons for the gap. People chose not to file for reasons of their own, or they did file and they were ineligible and disqualified.

We believe that Congress needs to consider education and training programs which have been mentioned. Employers need trained people and they would like to have more trained people than they are getting right now.

We think the system is working and we do believe that there is a necessity for some administrative funding that the gentleman mentioned a reserve fund earlier and we believe that there should be some kind of a reserve fund. I know that the people on this sub-

committee have always agreed to that and we have had that complete agreement along the way. Something should be done. Employers stand behind funding this system.

Thank you.

[The prepared statement follows:]

STATEMENT OF WARREN BLUE
TO
HOUSE WAYS & MEANS SUBCOMMITTEE
ON HUMAN RESOURCES

In Behalf of the Employee Benefits &Relations Committee
of
The Council of State Chambers of Commerce

February 6, 1991

I am Warren Blue and I appear here today in behalf of the Employee Benefits and Relations Committee of the Council of State Chambers of Commerce. I am Sr. Vice President and General Counsel of R.E. Harrington, Inc., Westerville, Ohio, a nationwide Third Party Administration firm representing many thousands of employers in all States.

I am accompanied by William R. Brown, who retired the first of the year as President of the Council of State Chambers of Commerce and is now a consultant to that group.

The Federal-State UI System is Working as Intended

The conclusion we arrived at in our testimony to this Subcommittee last February is still applicable not-with-standing the onset of what many economists believe will be a brief recession. At that time we said:

> The Unemployment Compensation system is doing a good job of providing benefits for individuals who have demonstrated an attachment to the labor force, and who find themselves unemployed through no fault of their own.

This conclusion is not changed by the developments that are being considered by this Subcommittee:

1. Possible need to borrow Federal Funds.

The indication that a half dozen States may need to borrow Federal funds is simply the proper operation of the present system as intended by Congress. In our opinion this is the way it should be.

2.Extended Benefit Triggers are working as Congress intended.

Certainly when the present triggers were tightened Congress meant to make Extended Benefits less readily available.

3.UI Benefits are going to those persons it was designed to cover.

The UI system, by and large, according to recent studies, is paying benefits to the temporarily unemployed through no fault of their own. Although exhaustion rates have been creeping up gradually since June of 1989, the latest figures show only a slight increase. Over 98 percent of all wage and salaried workers are covered by Unemployment Insurance

Administrative Funding is the Only Area Requiring Immediate Congressional Action

For some time we have been joining with the States and organized labor in bringing to your attention the failure of Congress to provide adequate administrative funding. Now the States face recession without adequate administrative funding to process the payment of benefits and place claimants in new jobs. This is the case even though employers have provided ample funds for this purpose through the Federal Unemployment Tax (FUTA).

We recognize, of course, that this is primarily the responsibility of the Appropriations Committees rather than Ways and Means Committee.

It is fortunate that , other than Administrative Financing, immediate Congressional action is not required because if the many economists who are predicting a short recession are correct, any action Congress now takes very likely could not be implemented by the States in time to have any significant impact on the present recession.

This is not to say that there are not problems that Congress may need to address involving new entrants into the labor force and long term unemployed. As we stated to you last February,

> No doubt there are many problems relating to retraining the disadvantaged, and the long term unemployed which need to be addressed by Congress. However, these should be dealt with in a manner that does not undermine the basic purpose of the unemployment compensation system.

Status of State Funds -Possible Borrowing

As we entered the current recession State U.C. trust funds were probably in better financial condition than at any time since the 1973 recession. Nevertheless some State borrowing from Federal funds may become necessary. The Labor Department recently has estimated that perhaps a half dozen States may need Federal loans to meet extensive benefit demands brought on by the recession. These States are Arkansas, Connecticut, Massachusetts, Michigan, Ohio, and West Virginia.

As for my own State of Ohio we have taken fairly drastic action to beef up our fund and we do not think that we will need to borrow. Effective June 26, 1990 HB 826, a bill agreed to by labor and employers, changed the Ohio Unemployment Compensation Law to address the need to improve the financing of the Unemployment Compensation Trust Fund. The Ohio Legislature:

o Increased the taxable wage base to $9,000 per employee over next four years from the present $8,000;

o Established a new formula to determine the Fund's minimum safe level ($1.4 billion in 1991) which includes triggering of additional taxes and an increase in the taxable wage base if necessary;

o Expanded the tax rate paid by maximum rated employers from 5.4% to 6.5% over a four year period starting this year and changed the rate table for employers not at the maximum.

Although Ohio pays one of the highest weekly benefit amounts in the nation ($296 for a claimant with three dependents), according to the Ohio Bureau of Employment Services the Trust Fund will be sufficient to meet all benefit demands during 1991 without the need to borrow from the Federal government. Over $800 million was in the Fund on January 8, 1991 and with the usual large first quarter tax payment, it is expected the Ohio Trust Fund can withstand all but the most severe recession. We believe this is an example of a State acting responsibly on its own and illustrates the lack of any need for changes in the Federal Law.

States, of course, do not like the prospect of borrowing especially since the Federal government started charging them interest. However, this is the best way to handle the

problem in our opinion. If a State wants to avoid borrowing it can do whatever it deems necessary to strengthen its fund, as States such as Ohio and Illinois have done.

The Extended Benefit Program Is Working as Congress Intended

The Extended Benefit program is close to triggering on in several jurisdictions - Alaska, Massachusetts, Rhode Island and Puerto Rico.

The intent of Congress was to reserve the use of EB for serious situations when it tightened up the trigger requirements. Changes in the trigger that have been suggested in past Congressional sessions we view as unneeded and inappropriate. These include reducing unemployment required to trigger, using "total" unemployment rather than "insured" unemployment as the measure, and instituting "Sub-State" triggers.

A reduction in the unemployment required to trigger EB would add substantially to employer costs of maintaining and increasing employment. The use of "total" unemployment as the trigger measure is inappropriate because the extended benefits are for persons covered by the regular UI system - that is the "insured" not the "total" unemployed. The "total" unemployed is a sampling which includes persons never covered by UI and who have demonstrated no regular attachment to the labor force. The use of Sub-State triggers not only would be very difficult to administer, but would also create great inequities.

UI Benefits Are Being Provided As Intended

The so-called gap between the total unemployment rate and the insured unemployment rate is not the result of any decline in coverage of the UI system. There has been no decline. Over 98 percent of all wage and salaried workers are covered by UI. A major part of the explanation of the gap is that many person counted in the "total" unemployed are not regular wage and salaried workers .

o They are new entrants to the workforce and have no covered wages;

o Others have insufficient work history and so lack required covered wages;

o Still others are re-entrants to the labor market with no recent wages;

o Some are disqualified because they voluntarily quit their job without good cause, or:

o They are guilty of misconduct connected with their work, or;

o They refused an offer of a suitable job;

o Others have exhausted all their benefit entitlement.

Several studies have been made in recent years to quantify and explain the reasons for the "gap". One of these studies was conducted by Gene Falk for the Congressional Research Service of the Library of Congress. This November 15, 1990 study is entitled *Unemployed Workers Who Do Not Receive Unemployment Compensation: Impact and Incidence.* It found that the most dominant characteristic of the unemployed is its youth: many have little recent work history; they are less likely to head families and have less job experience than UC recipients. Mr. Falk found that the largest group of the uncompensated unemployed were children of household heads. These were mostly teenagers and young adults still living with their parents. Mr. Falk points out that these are persons for whom UC was not designed.

Conclusion

In view of the findings as to the composition of the uncovered unemployed, revisions in such things as Extended Benefits will have little or no impact. As we have indicated it may be that Congress needs to consider education and training programs that will address such problems as these which the UI system is not meant to handle. To reform the UI system to address these problems would require such drastic and basic changes in the Federal-State UC system, that the result would be to undermine a program that has been doing a very good job of doing what it was designed to do. This would not be fair to that 98 percent of wage and salaried workers that are covered by the present Unemployment Compensation program. Certainly it would not be reasonable to expect the employer community alone to bear the costs of what is an obligation of society as a whole.

In short the only immediate action that is required by Congress on Unemployment Compensation is adequate administrative financing to permit the State Employment Security agencies to pay benefits promptly to those persons who are entitled and to place claimants in gainful employment. The States simply have to be given the resources to carry out these responsibilities. In addition to more adequate appropriations we suggest the creation of a "reserve fund" to draw on FUTA funds automatically when needs exceed what was anticipated during the budgetary process.

Acting Chairman DOWNEY. Thank you, Mr. Blue.
Mr. Burtless.

STATEMENT OF GARY BURTLESS, SENIOR FELLOW, THE BROOKINGS INSTITUTION

Mr. BURTLESS. Thank you, Mr. Chairman.

I prepared a longer formal statement which contains my full views and at the moment I just want to briefly summarize them.

Adverse trends during the 1980s eroded the value of unemployment insurance both as income protection for the unemployed and as an automatic stabilizer. But before discussing the most important of these trends, I think in light of what has been said here, I should mention one problem the system does not face, or rather a problem I think is widely misunderstood.

Some people needlessly worry that unemployment reserves will be inadequate to pay for benefits in the current recession. When the trust funds are exhausted these people think that benefit checks are going to stop or the system will need a costly Federal bailout as in the savings and loan fiasco.

But these fears are groundless. State trust funds are lower than they ought to be but they are higher than they were at the start of the 1981–82 recessions. Even when States do deplete their funds benefit checks will continue to go out. The Federal Treasury will loan the States any cash they need and the loans will be repaid when the economy rebounds. States are not like bankrupt S&Ls. They can and they do impose taxes to keep their UI programs solvent in the longrun.

But the more serious concern is that States will act to protect their funds in the middle of a recession. That is that they will slash benefits or boost taxes just when the economy needs the opposite kind of medicine.

We should try to give States incentives to do the right thing, which in this case, is to spur on economic recovery.

Now, let me return to what I think are the more serious problems faced by the system. First, roughly one-fifth fewer unemployed job losers are collecting regular benefits than we would expect based on the historical experience before 1980. Starting in 1980 or 1981 the percentage of job losers collecting benefits started to fall. And by the way, I think they fell way too fast in that era to be explained by people suddenly deciding that they just don't want checks and they have good personal reasons not to go down and file. I don't think that explanation holds any water.

The job losers are the unemployed who should be collecting unemployment benefits. The number of UI recipients plunged compared to the number of job losers. It reached an all time low in 1984. Since 1984 it has crept back up and it is now above the lowest point during the 1980s but still it is about 20 percent below the level we would expect given the experience before 1981.

Why did the percentage collecting benefits fall? I don't think there is any single reason. That's what the last decade's research has shown. But I do think that the most important reason is that both the State and the Federal Governments have tightened eligi-

bility standards or otherwise they have cut benefits so that they would seem less attractive to people who are unemployed.

The second worrisome trend is related to this first one. As a result of the drop in the fraction of job losers collecting UI, there has been a corresponding drop in the insured unemployment rate or IUR, relative to the civilian unemployment rate. After 1980 the growing gap between the IUR and the civilian rate was almost entirely due to the plummeting faction of job losers who collect benefits. It is not due to any change in composition of the employed or the unemployed. It is just due to a shrinking share of the unemployed collecting benefits.

The relative drop in the IUR would have only academic interest except for one thing. This is the rate that triggers extended benefits. As a result of the growing gap between the IUR and the TUR the extended benefit program seldom triggers on except when State labor markets enter almost depression conditions. Unlike the insurance company that promises "We will be there," the extended benefit program probably will not be there in this recession.

The situation can be compared to a defective thermometer that is off by 4 or 5 degrees. Your child is burning with fever but the oral thermometer shows a healthy temperature of 98.6. A sensible doctor would throw away the thermometer and try a new one before prescribing a cure for the patient.

The IUR is like the broken thermometer. It takes a lot of unemployment before this particular thermometer registers recession. But instead of throwing away or repairing the current trigger mechanism we have continued to rely on it to tell us when antirecession medicine is needed. In my formal statement I suggest some improvements in the extended benefit trigger.

The third trend worth mentioning is the transformation of UI from a tax-exempt to a fully-taxed form of income. This has essentially reduced the value of benefits by 15 or 20 percent.

As a result of the three developments just mentioned, unemployment insurance enters this recession a pitiful and sickly weakling. The combined effects of the lower coverage rate, the taxation of benefits and the virtual elimination of the extended benefit program can be stated fairly simply. Compared with recessions in the 1960s and 1970s unemployment insurance now provides about one-third less income protection and countercyclical stimulus.

Thank you.

[The prepared statement follows:]

UNEMPLOYMENT INSURANCE IN THE CURRENT RECESSION

Testimony for the
Subcommittee on Human Resources

Committee on Ways and Means
U.S. House of Reprentatives

February 6, 1991

by

Gary Burtless[1]

Overview

The country entered recession in the last quarter of 1990. But the nation's unemployment insurance system entered this downturn in worse shape than ever at the start of a recession. The system was designed to serve two crucial functions. It should provide workers with essential income protection during temporary spells of unemployment. And by helping to sustain the consumption of jobless workers, it should give the economy a counter-cyclical boost during periods of high national unemployment.

Changes in the system over the past decade have reduced the adequacy of unemployment benefits and diminished the effectiveness of the program as an automatic stabilizer. The percentage of unemployed now collecting insurance benefits is about one-fifth below levels that were typical before the 1980s. Moreover, the value of unemployment insurance shrank in the 1980s as a result of the decision to make benefits taxable. In the short run, Congress and the President should shore up the system by reforming the way we provide extra benefits to the unemployed in slack labor markets. Over the longer term, the program should be strengthened by reform of its financial structure and greater equalization across states of eligibility and benefit formulas.

In the remainder of my testimony, I discuss why the protection offered by unemployment insurance has fallen so much in the past decade, how Congress can revamp the system in the next few months to make it work better during the current recession, and what steps should be taken in the long run to improve the effectiveness of the system.

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[1] Senior Fellow, The Brookings Institution, Washington, D.C. I am grateful to Suzanne Smith of Brookings for providing exceptional help in preparing this testimony. The views expressed are solely my own and should not be ascribed to the staff or trustees of the Brookings Institution.

Declining UI Coverage

In the 1980s unemployment rose to new post-war highs, but the share of unemployed workers drawing unemployment benefits fell to new lows. The percentage of jobless workers collecting benefits has risen modestly in the past two years, but still remains well below the level prevailing before the mid-1980s (see Figure 1).

The proportion of unemployed collecting benefits has declined for several reasons. First and most important, fewer unemployed workers now apply for benefits when they lose their jobs. In part the drop in applications is due to a change in unemployment insurance eligibility requirements, which are established both at the state and national levels. In addition, some unemployed workers may have decided against applying for benefits as the after-tax value of these benefits fell. Finally, the nature of unemployment has changed over time.

The unemployed are now drawn from different industries, geographical areas, and demographic groups than was the case through much of the post-war period. For example, as the nation's population has moved toward the south and west and out of the northeast and midwest, a shrinking fraction of the unemployed have held jobs in states with liberal eligibility requirements. Workers losing their jobs in many southern and western states are less likely to collect benefits than jobless workers in the northeast and upper midwest. (The recent jump in the fraction of jobless collecting benefits is partly due to the sharp increase of unemployment in New England and the mid-Atlantic states, where liberal eligibility requirements are common.) However, careful analysis of the regional distribution of unemployment has shown that this factor can explain only a small part of the decline in insurance coverage over the past decade. The percentage of jobless workers collecting unemployment insurance payments has dropped in every region and nearly every state in the union.[2]

A much more important reason for the drop in the percentage of unemployed collecting benefits is the change in UI law and regulation that has occurred since 1976. Some important legal changes occurred at the federal level, but many changes were instituted at the state level as state governments responded to shortfalls in their unemployment insurance trust funds by scaling back on benefits. Many of these changes affected the eligibility of unemployed workers to receive insurance benefits. For example, several states have increased their base period earnings requirements, reducing the chances that part-time or intermittently employed workers will become insured. Workers receiving pensions or severance pay are also more likely to be denied insurance benefits or to receive smaller benefits when they qualify.

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[2] Gary Burtless and Daniel Saks, The Decline in Insured Unemployment During the 1980s, Brookings Economic Discussion Paper (Washington, DC: The Brookings Institution, 1984). For an analysis of the effects of industrial and economic shifts, see Walter Corson and Walter Nicholson, "An Examination of Declining UI Claims During the 1980s," Unemployment Insurance Occasional Paper 88-3 (Washington, DC: U.S. Department of Labor, 1988).

State UI Reserves

Why did so many states take the unprecedented step of tightening eligibility requirements in the midst of a severe recession? One reason is that most states entered the 1980-82 recession with relatively small trust fund reserves. As the trust funds were exhausted, state legislatures were forced to raise payroll taxes or slash benefits in order to restore their programs to solvency. In the previous recession of 1974-76, many states had freely borrowed from the federal Treasury to keep benefit payments flowing. But under legislation passed in 1981, the Treasury began imposing interest charges of up to 10 percent a year on new borrowing. The interest charge placed greater pressure on states to take immediate steps during a recession to ensure that their trust funds did not fall far out of balance.

States were not obligated to restrict eligibility or slash benefits, of course. They might have raised the payroll taxes imposed on employers. In fact, many states did so. But in the anti-tax climate of the last decade, it became difficult for legislators to raise taxes enough to keep their systems financially healthy. Moreover, as labor unions have weakened, the voice of ordinary working people has become much fainter in most state capitols. The views of business lobbying groups remain very influential. The net result is a bias against raising taxes and in favor of restricting benefits.

One hopeful aspect of the current situation is the relatively strong condition of most state UI trust funds. This is primarily the result of the very long economic recovery over the second half of the 1980s rather than a carefully considered policy on the part of state governments. An analysis by the Department of Labor's Unemployment Insurance Service shows that most states are entering 1991 with healthier reserves than was the case in 1980. Thus, state legislators will not find themselves pressed to trim benefits quite so early in the next recession. Nonetheless, reserves are lower than they were at the start of the 1970 and 1974-76 recessions, and the anti-tax climate is even stronger at the state level today than it was in the early 1980s. If state trust funds face insolvency during the next couple of years, I expect that many state governments will turn to the same remedy they used in the 1980s: curbs on UI eligibility.

Whether states decide to raise taxes or reduce benefits, however, the macroeconomic consequences will be the same. If legislatures act to shore up UI reserves in the middle of a recession, the counter-cyclical stimulus provided by the program will be reduced. The appropriate time to boost reserves is during an economic expansion, not a contraction, but the anti-tax climate of the 1980s worked against the accumulation of adequate reserves.

Much of the current concern about the adequacy of trust fund reserves is misplaced. Some obervers needlessly worry that reserves will prove inadequate to pay for benefits in the current recession. They believe that shortfalls in state funds will mean that benefit checks will not be written or that a costly federal bailout of the state funds will be necessary. Based on the past history of the program, neither concern appears well-founded. Even if a state trust fund is exhausted, benefits in the state will continue to be paid,

possibly with a loan from the federal Treasury. States will eventually repay the Treasury with funds raised under the unemployment insurance payroll tax imposed on employers within the state. Contrary to popular belief, the situation is in no way analogous to the savings and loan fiasco. Unlike an insolvent savings and loan, a state can impose taxes on employers to restore its unemployment insurance trust fund to solvency.

The more relevant concern is that states will act with undue haste to raise taxes or reduce unemployment benefits, even as state economies tumble into recession. A payroll tax hike or benefit cut can actually delay economic recovery by discouraging new hiring and reducing consumer spending in a state. For that reason it is much better to build up healthy reserves during an economic recovery than to try to rescue a depleted trust fund in the middle of a recession.

Trends in Coverage under State UI programs

The percentage of jobless workers collecting *regular* UI benefits has dropped by roughly 20 percent compared with the level that prevailed before 1980. This estimate is based on analysis of trends in the percentage of unemployed workers who are most likely to be eligible for benefits under the rules in effect before the 1980s. In the U.S. system of unemployment insurance, benefits are not provided to all jobless workers. New labor market entrants and most reentrants into the job market are not eligible to receive benefits, because the program insures only those workers with recent employment in a covered job. In addition, workers who voluntarily leave their jobs may not be eligible for benefits or may be eligible only after a specified waiting period, such as 6 or 10 weeks. This means that the overwhelming majority of workers eligible for benefits will be those who are unemployed because they are on temporary layoff or because they involuntarily lost their last jobs. Under the main state unemployment insurance programs, jobless benefits are limited to the first 26 weeks of a spell of unemployment. Thus, the group of unemployed most likely to be insured are involuntary job losers who have been unemployed for fewer than 27 weeks.

Figure 2 shows the number of regular unemployment insurance claimants measured as a percentage of the number of involuntary job losers unemployed fewer than 27 weeks. In previous research, I found that this coverage ratio remained quite stable over the thirteen years from 1967 through 1979.[3] Over that span of years, there were about 108 recipients of regular state UI for every 100 job losers unemployed less than 27 weeks. This ratio fluctuated somewhat over the business cycle, as can be seen in the figure, but it was otherwise reasonably stable.

Beginning in 1980 the ratio of regular UI recipients to short-term job

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[3] Gary Burtless, "Why Is Insured Unemployment So Low?" Brookings Papers on Economic Activity, 1983:1; and Gary Burtless and Wayne Vroman, "The Performance of Unemployment Insurance Since 1979," Proceedings, Industrial Relations Research Association, 1985.

losers fell very sharply. This coverage ratio reached an all-time low in the third quarter of 1984, when it fell to just 71 insurance recipients for every 100 job losers. Since 1984 the coverage ratio has recovered somewhat, until now there are about 85 regular UI claimants for every 100 short-term job losers. In spite of its recent recovery, however, the ratio remains well below its level before 1980 and even below its level during the 1980 recession. The recession we are now entering is one in which the unemployment insurance system could provide benefits to a historically low percentage of job losers.

Taxation of Benefits

In addition to legal changes that directly affected workers' eligibility for regular benefits, several other changes reduced the value of benefits and hence the attractiveness of applying for compensation during very short spells of joblessness. An analysis by the House Ways and Means Committee, for example, shows that federal taxation of UI benefits reduced their value to unemployed workers by 16 percent.[4] Because most states with an income tax system use the same tax base defined in the federal system, many UI claimants now pay state as well as federal taxes on their benefits. Thus, the combined income tax rate on unemployment insurance benefits probably ranges between 18 and 20 percent.

Although it is certainly equitable to include UI benefits in the tax base, taxing benefits without raising benefit levels is equivalent to a sizable benefit cut. Until 1979 unemployment compensation was exempt from all income taxes, and between 1979 and 1986 benefits were taxable only for taxpayers with incomes above certain thresholds.[5] The benefit cut not only reduces income protection offered to jobless workers, it also diminishes the effectiveness of unemployment insurance as a counter-cyclical stabilizer. I suspect that it also deters some unemployed workers from applying for benefits.

Extended UI Benefits

The extended benefit UI program offers additional insurance protection beyond 26 weeks of unemployment for workers who have exhausted regular benefits and who live in states with high unemployment. The drop in the percentage of unemployed job losers collecting regular benefits has directly affected the insured unemployment rate (IUR), which serves as the basis for triggering extended UI benefits. If I am correct in estimating that the number of regular UI claimants has fallen by one-fifth, then the IUR is also about one-fifth too

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[4] Committee on Ways and Means, U.S. House of Representatives, 1990 Green Book (Washington, DC: U.S. Government Printing Office, 1990), pp. 467-68.

[5] The Revenue Act of 1978 taxed UI benefits received by some middle-income and all high-income taxpayers, while the Tax Act of 1982 (TEFRA) reduced the income thresholds for taxation of benefits to $12,000 for single filers and $18,000 for married couples filing jointly. The 1986 Tax Reform Act made all unemployment compensation subject to taxation under the personal income tax.

low relative to the civilian or total unemployment rate (TUR), which provides a more accurate gauge of current labor market conditions.

The relationship between the insured and total unemployment rates is shown in the two panels of Figure 3. Although the IUR and TUR tend to move in parallel fashion over the business cycle, they have drifted apart since 1955. Before 1980, this drift could be easily explained by the changing composition of the civilian unemployed -- who were younger, less likely to be job losers, and increasingly drawn from industries with low levels of insurance coverage -- and by changing regulations about the insurance coverage of employed workers.[8] After 1980, however, the sharp decline in the IUR relative to the TUR has been almost entirely due to the sharp drop in the fraction of new job losers collecting benefits.

As a result of the drop in the IUR, the extended benefit program has virtually ceased to function. When the employment situation in a state deteriorates, its total unemployment rate rises, but its insured unemployment rate often does not rise by enough to trigger extended benefits. The result is that the extended benefit program either fails to trigger on or triggers on late in an economic downturn. Moreover, even where extended benefits are available, the IUR can be expected to fall below the critical threshold relatively early in an economic recovery. Many beneficiaries are thus dropped from the insurance rolls even though the job market remains very weak.

The extended benefit program also contracted over the past decade because of significant changes in federal law passed in 1981. Before 1982 the extended benefit trigger rate was computed by including recipients of both regular and extended benefits in the count of insured unemployed. (Thus, the trigger-rate used before 1982 was not identical to the IUR, which excludes recipients of extended benefits from the numerator.) Since extended benefit recipients are now excluded, the level of insured unemployment needed to trigger the extended benefit program has effectively been raised. Also, before 1981 the extended benefit program could be triggered in all states if the national insured unemployment trigger rate exceeded 4.5 percent. The national trigger rate was eliminated by the 1981 legislation. Beginning in October 1982, extended benefits have been available only in states in which the IUR exceeds 5 percent and is at least 120 percent of the rate over the previous two years. Some states also provide benefits when the IUR reaches 6 percent, regardless of the rate in previous years. These trigger rates are one percentage point higher than the comparable rates in effect before 1982.

The legislative reforms of 1981, along with the sharp drop in the number of regular UI claimants, had a calamitous effect on the extended benefit program. At the end of 1982, when the civilian unemployment rate reached 10.8 percent--a post-war high--only fourteen states with particularly high insured unemployment rates offered extended benefits. By October 1983, with unemployment still hovering above 9 percent, only two states and Puerto Rico offered extended benefits. In contrast, during the 1974-76 recession, when unemployment reached a high of only 9.0 percent, all 50 states offered extended

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[8] See Burtless, "Why Is Insured Unemployment So Low?", pp. 233-34.

benefits for prolonged periods. As a practical matter, the extended benefit program no longer operates as an effective counter-cyclical stabilizer. Except in extraordinarily severe recessions, the program is unlikely to offer benefits to a sizable number of workers.

Administration of UI

The nation's UI system will enter the next recession under budgetary rules that can impede needed spending on routine program administration. The Budget Enforcement Act passed last October fundamentally altered the enforcement of spending limitations, first enacted as part of the Gramm-Rudman-Hollings legislation. The new enforcement mechanism affects unemployment insurance administration in two ways. First, it changes the way budget targets for UI spending will be made for future fiscal years. And second, it reduces the flexibility of Congress to respond to a surge in UI applications after the fiscal year has begun. In my view, the second effect is more serious, and I will devote a little time to discussing it here.

UI administrative costs are classified as "discretionary domestic spending" in the new budget scheme adopted by the last Congress. (Benefit payments are counted as entitlements; they are permitted to climb if the economic situation deteriorates.) If the nation's employment situation turns out worse than forecast when the current budget was adopted, the amount of money needed to pay for program administration will almost certainly have to climb. The Department of Labor would be required to request a supplemental appropriation for UI administration, as it has been forced to do in 10 of the last 18 years.

Under the new enforcement mechanism, however, the Appropriation Committees are forced to find the additional funds by reducing appropriations under other accounts in the domestic discretionary budget. Of course, this will make the extra funds much harder to obtain than was the case under the Gramm-Rudman-Hollings Act, where no budget cuts were required within the current fiscal year. The President can designate a supplemental request an "emergency requirement," thus exempting it from the spending cap. But I have no reason to believe this would be likely. As a practical matter, the current legal environment makes it more difficult for the federal government to appropriate extra money for UI administration if rising insurance rolls should make that necessary.

Policy implications

An important implication of these developments is that the unemployment insurance system has become a much weaker source of counter-cyclical stimulus during economic downturns. The effectiveness of the extended benefit program has been cut at least in half as a combined result of the legislative changes passed in 1981 and the continued weakness of the IUR as a measure of the labor market situation. The stimulus provided by the regular 26-week program has dropped by one-fifth because of the decline in the number of claimants relative to the number of unemployed job losers. And the stimulus provided under both

the regular and EB programs has dropped by an additional 15-20 percent as a result of the taxation of benefits. *In comparison with the level of countercyclical stimulus available during the 1960s and 1970s, the stimulus provided by the current system has dropped by at least a third.* The income protection available to jobless workers has dropped by a similar amount.

Reform of extended benefit trigger. Because the IUR is a poor indicator of the condition of the job market, it is a faulty instrument for triggering state-level extended benefit programs. The current trigger is like an oral thermometer that registers a temperature that is 4 or 5 degrees below the patient's actual temperature. The patient might be burning with fever, but the defective thermometer will show a healthy temperature of 98.6 degrees. Under these circumstances, a sensible doctor would throw out the thermometer and try to obtain a more accurate guage of the patient's condition. We should do the same with the extended benefit unemployment rate trigger.

Any substitute for the IUR in triggering extended benefits must meet three criteria. It must specifically reflect the labor market situation of workers insured by the program. It must be available in a timely manner, either weekly or monthly. And it must be available on a state-by-state basis. The total unemployment rate meets the first two of these criteria much better than the IUR. Unfortunately, it does not meet the third criterion. Except in the eleven largest states, the BLS does not produce accurate survey estimates of the state-level unemployment rate. (The Current Population Survey, which is used to obtain the main unemployment statistics, is simply too small to permit accurate estimation of unemployment in the 39 smallest states.)

Given present limitations in state-level unemployment data, the best trigger mechanism must depend on a combination of information about overall unemployment, as reflected on the Current Population Survey, and state-level insured unemployment, as indicated by the IUR or some other statistical series maintained by state UI systems. One possibility is the Bureau of Labor Statistics' estimate of monthly or bi-monthly state-level unemployment rates. This estimate is available on a timely basis, although it suffers from somewhat questionable reliability. As a practical matter, I would suggest that we rely on the BLS estimate of the state unemployment rate, which is based on data from the Current Population Survey as well from the state unemployment insurance system. When the state unemployment rate rises above, say 7 percent, states should be required to offer at least seven weeks of extended benefits. States with BLS-estimated unemployment rates above, say, 9 percent should be obligated to offer seven more weeks extended benefits in addition to the seven just mentioned.

A simpler reform would be to reduce the current insured unemployment trigger rates enough to make the extended benefit program approximately as generous as it was before 1981. Reducing the critical threshold rates about 1.5-1.8 percentage points would accomplish this goal. One weakness of this procedure is that the extended benefit program would remain vastly unequal accross the 50 states. States in the south and west typically have lower insured unemployment rates than states in the north and midwest because they make it more difficult for job losers to collect regular unemployment benefits. Thus, in a recession that is equally severe all across the nation,

Massachusetts and Michigan might offer extended benefits when Florida and Texas did not. To eliminate this inequity, it is necessary to move away from insured unemployment statistics in triggering extended benefits.

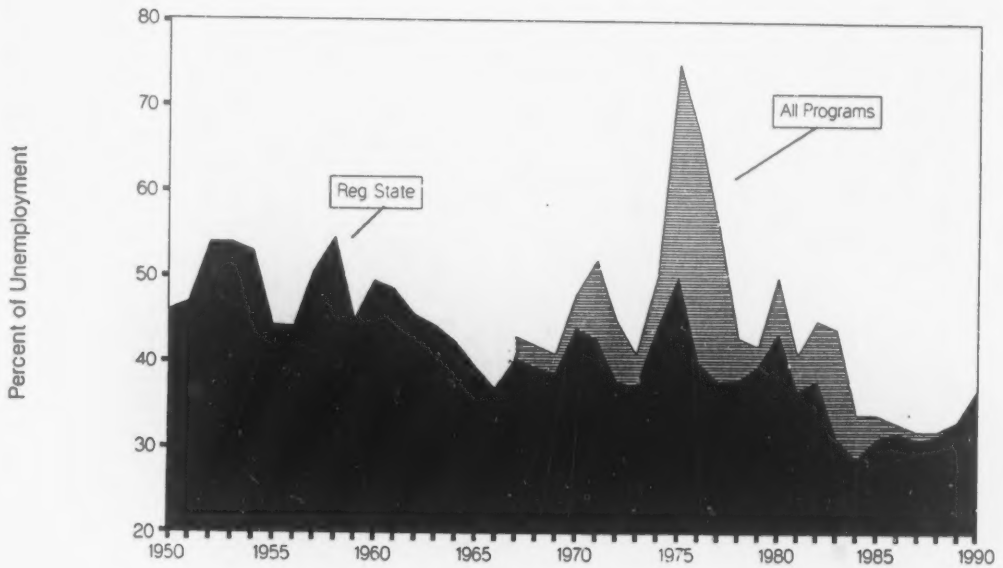
Either of the alternative procedures just mentioned would represent an improvement over the current trigger mechanism. Their main advantage is that they would prevent a recurrence of the experience of the early 1980s, when the extended benefit program shrank even as unemployment -- especially long-term unemployment -- rose to new post-war highs.

Long range reform. In the long run it would be worthwhile to consider alternatives to the current method of financing unemployment insurance and of setting eligibility requirements and benefit levels. Experience over the past 15 years suggests that state legislatures are reluctant to build up their UI reserves during economic expansions by enough to weather deep recessions. When a severe recession occurs, state governments often resort to immediate payroll tax hikes or benefit cuts to keep their programs solvent. Either action reduces the effectiveness of unemployment insurance as an automatic stabilizer. A benefit cut also adds unnecessary hardship to the plight of the unemployed. The long-term remedy to this problem is to give states substantial incentives to build up their trust fund reserves during good times, for example, by penalizing states with low reserve ratios if their unemployment rates have remained low over several years.

In addition, it would be useful to raise substantially the wage base currently used to assess unemployment insurance payroll taxes. In many states, the tax base includes only the first $7,000 of a worker's earnings. In only a handful of states does the wage base exceed $14,000. Thus, states impose relatively high tax rates on initial earnings rather than lower rates on a much larger base. If the burden of the payroll tax is borne by workers in the form of lower compensation, as most economists suspect, this means that a disproportionate share of the tax is borne by low-wage or intermittently employed workers. The tax is regressive, and it perversely discourages employers from hiring extra workers when the economy improves. In my view, the tax base should be raised to at least $25,000 in all states.

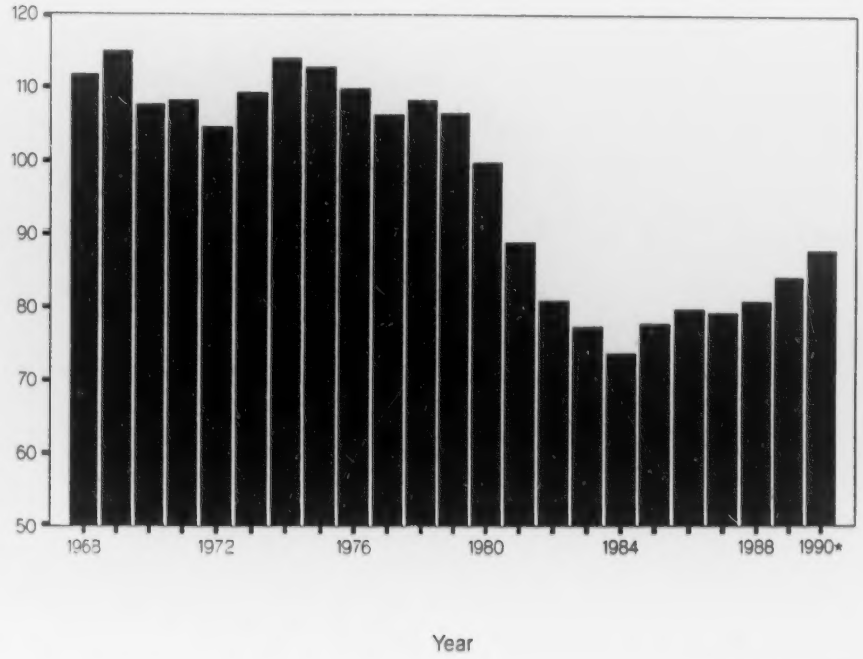
A vital task for policymaking in the coming year is to restore the ability of the nation's unemployment insurance programs to deal with severe recession. A worthwhile start on this task would be a modest reform of the triggering mechanism for extended unemployment benefits. In the long-run, the President and Congress, perhaps with the help of a broadly representative study commission, should turn its attention to a thorough overhaul of the basic system.

Figure 1. Share of Unemployed Workers Covered by UI, Regular State Programs and All Programs



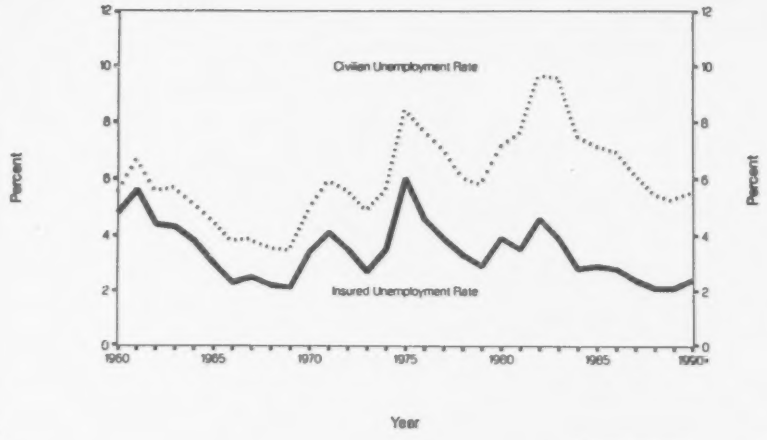
"All Programs" include state UI, UCFE, UCX, RR, EB, FSB, SUA, and FSC
Data for all programs begin in 1967. SOURCE: DoL/ETA/UIS

Figure 2. Number of Regular Benefit Claimants for Every 100 Short-Term Job Losers, 1968-90

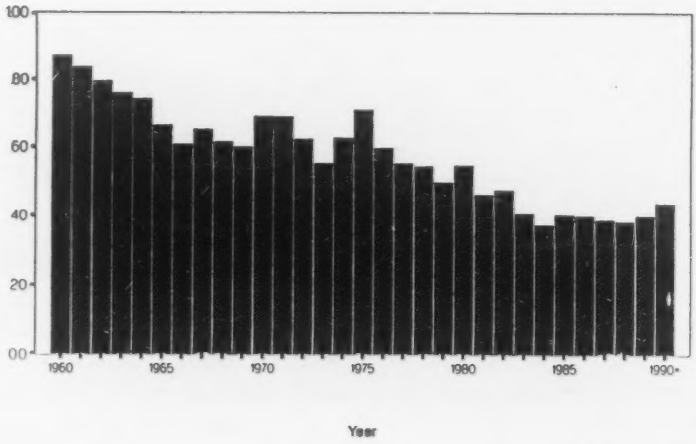


*Through September 1990

Figure 3. Insured Unemployment Rate Versus Civilian Unemployment Rate



Insured Unemployment Rate as a Fraction of Civilian Unemployment Rate



Acting Chairman DOWNEY. Thank you, Mr. Burtless, Mr. Cunningham, and Mr. Blue.

Mr. Levin, do you have any questions?

Mr. LEVIN. Just briefly, thank you, Mr. Chairman.

We all appreciate the testimony and while there are disagreements on some aspects, it is interesting and I think important that all of you agree on the administrative aspect of this, that something just has to be done.

Mr. Blue, let me just if I might, ask you a couple of somewhat basic questions. Do you think there should be wide variation in unemployment benefits from State to State?

Mr. BLUE. I think the States can make those decisions and have been. So I guess if that causes wide variations—that is a State-to-State decision, Mr. Levin. Do I believe that it should be? I believe what the States decide is the way that it should be done.

The difference between Mississippi and Michigan would be substantial or could be substantial, yes.

Mr. LEVIN. What is that for an unemployed worker, what is the difference?

Mr. BLUE. Well, most of the benefit levels are based upon an employee's average weekly wage so it's a relationship between what they were making before and what they are able to collect in unemployment benefits. So that is one of the reasons for the wide variation.

Mr. LEVIN. But there are variations in terms of the percentage of wage replacement, right?

Mr. BLUE. Well, again, that is a State decision, yes, it could be, yes, I agree.

Mr. LEVIN. Well, why should there be a wide variation in the percentage of wage replacement?

Mr. BLUE. Because this is a Federal/State program and the States are making those decisions and I believe they should continue to make them.

Mr. LEVIN. But looking, I mean that is kind of a conclusion, why should the States be able to vary substantially in terms of percentage of wage replacement?

Mr. BLUE. No. 1, that's the way Congress set it up and I realize Congress can change that, if that's what you're talking about. And No. 2, I think the decision was made because of the economic and the circumstances in each State to make their own determinations. Most of the decisions that are made in States are like Ohio. That is a combination, bipartisan State body of labor and employers and they sit down and for the most part make a decision as to what they want to do in their State. So it is not just pulled out of the sky. It is an effort made by people who have vested interests in doing this so I believe in that.

Mr. LEVIN. Mr. Cunningham, you——

Mr. CUNNINGHAM. Mr. Levin, I think we respectfully disagree on this issue. I mean the system is broken. If you want to continue the system the way it's going, you don't rethink some of the assumptions on how the system is going. We believe that probably it should be more of a Federal effort in here. As Congressman Downey pointed out, workers are unemployed, and they are not

Michiganders unemployed, they are American citizens unemployed. We believe that the program should be looked at.

You can look at it in terms of both the allocation of trust funds and the responsibility. The trust fund system that was set up was set up in the 1930s and it should be reviewed. I mean if this system basically has too much in one account that is not being used, you should restructure the trust fund system to basically use it.

You should look at it in terms of, as I pointed out, both coverage and the size of the benefits. That a State basically decides that it doesn't want to cover whole groups of people or give them a significant replacement wage, I think, is something that Congress should change at.

As for Mr. Blue's intention that the system is good as designed, I understand the system was put in place in 1932 and that's the way it is now, the reason you are having this hearing is because the system is not working now, and I would hope that you would just review that and the entire context. I don't think this system has worked for a number of years and basically the review by this committee and the efforts of the last 2 years are long overdue from my perspective.

Mr. LEVIN. Mr. Burtless, any comment on that?

Mr. BURTLESS. Well, I completely favor greater harmonization of benefits across States. I also favor greater harmonization of eligibility criteria across States. Let me point out that under the extended benefit program trigger mechanism, benefits only get triggered in a State if its IUR reaches a certain threshold. And the fact that some States are very stingy in their eligibility and others are much more liberal implies that if the unemployment rate—the civilian unemployment rate—is the same all across the country, some States might have an IUR high enough to trigger benefits, whereas other States, in equally bad economic conditions would not.

So that's an example of why great discretion in permitting States to have any kind of eligibility standards they want, any kind of benefit levels they want is very harmful. It causes a great inequity because the extended benefit program is, after all, 50 percent funded out of the U.S. Treasury.

Acting Chairman DOWNEY. Mr. Grandy.

Mr. GRANDY. Thank you, Mr. Chairman.

Mr. Burtless, you say, in your testimony that you feel one of the problems that we have is that the tax base in most States is too low. In other words, you are taxing a disproportionate amount on a small wage base. You propose expanding that base and lowering the tax. In other words, a kind of tax reform as it relates to unemployment insurance.

The figure that you quote here for a reasonable wage base is $25,000. I assume that would be something that you would mandate for every State?

Mr. BURTLESS. Yes, as a minimum

Mr. GRANDY. Do you have any idea how much we would raise by doing that?

Mr. BURTLESS. Well, it depends entirely on the tax rate that you impose, but I am——

Mr. GRANDY. What's the mean tax rate? I don't know what it is in terms of unemployment——

Mr. BURTLESS. Nor do I, but I just think that $7,000 is a woefully inadequate tax base for the following reason. Whatever tax rate you impose would have to raise enough on this $7,000 base to pay for all unemployment benefits in a given State.

Mr. GRANDY. Right.

Mr. BURTLESS. And that is equivalent to having essentially a poll tax for every person that is hired in the State, because everybody in the country, if the is a full-time worker, is paid more than $7,000.

Mr. GRANDY. But your argument is that it is disproportionate on low wage earners is what you are saying?

Mr. BURTLESS. Yes.

Mr. GRANDY. All right, now, you also talked briefly about providing incentives to States to build up trust fund reserves as a possible way to address this problem.

Expand on that a little bit. Would one of those incentives be, if they adopted this particular kind of tax mechanism——

Mr. BURTLESS. Well, that tax mechanism should be understood independently of whatever else we do. The increase of the tax base is supposed to make the tax less distorting. It is supposed to make it so that the tax, whatever level of overall tax revenues is needed, the tax does not discourage hiring during an economic recovery.

With respect to giving incentives to States to have more adequate reserves, I think it would be difficult to specify without very careful thought what those incentives should be.

And let me explain. In 1982, or in the early 1980s we put in the interest rate penalty and some incentives to get States to restore their systems to solvency. The States certainly did that but it had a very unfortunate consequence in the short-run. States slashed benefits in that last recession and they boosted payroll tax rates, causing the program to have less effect or less effectiveness during the recession than it should have.

So I think that whatever incentives we give to States should be incentives that kick in during an economic recovery—that is, incentives to encourage States to have more adequate reserves the next time a recession hits. And I think we should do it with a great deal of care and thought, really, not based on off-the-hip suggestions from me.

Mr. GRANDY. So in other words, what you are suggesting is that higher reserve ratios would result in higher Federal funding to those States, right? In other words, it is a——

Mr. BURTLESS. Not necessarily. First of all, in the short-run instead of giving big bonuses to States and imposing high penalty interest rates on them if their funds fall into the red in the current recession, the Federal Government could be more lenient than it was after 1982.

The Federal Government simply shouldn't provide the big inducement for States to act with great haste to restore their systems to solvency during a recession.

Mr. GRANDY. All right, thank you.

Acting Chairman DOWNEY. I want to thank the panel and again hold open the opportunity for you to work with us as we go through this process.

I would only observe on the point that Mr. Blue made about what they have done in Ohio which is commendable. And that is to raise their wage base from $7,000 to $9,000. It is the same effort that we had made on the national level to increase ours that the Chamber testified against.

So I would hope that when we attempt to be as responsible as the State of Ohio that maybe the Chamber would reexamine their position. Only because what I would like to see happen is broaden the base and conceivably lower the rate, which I think would make infinite sense in terms of how this program works.

But you would be welcome to help us work through this legislation which we anticipate will be ready in a month or so.

Thank you, all very much.

The subcommittee stands adjourned.

[Whereupon, at 12:22 p.m., the hearing was adjourned.]

[A submission for the record follows:]

U.S. Chamber of Commerce
LABOR & HUMAN RESOURCES DEPARTMENT
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February 20, 1991

Lisa M. Sprague
Manager, Employee Benefits Policy

The Honorable Thomas J. Downey
Chairman
Subcommittee on Human Resources
Committee on Ways and Means
United States House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

The U.S. Chamber of Commerce regrets that it was unable to testify at the February 6 hearing on the unemployment insurance (UI) system and its ability to respond to the recession. Nevertheless, the Chamber retains its keen interest in the UI system and would like to comment on some of the concerns you have raised.

It is interesting to note that all the UI constituencies, from business to organized labor to state legislators, agree on one point: administrative funding shortfalls have reached crisis proportions. With staff levels that were inadequate even in a healthy economy, employment security agencies simply cannot respond to the volume of claims the recession continues to generate. Similarly, all interest groups hold that an insufficiency of tax revenues is not the problem. The Employment Security Administration Account in the federal trust fund is projected to post a surplus in excess of its statutory ceiling at least through 1996. The problem is that Congress has been unwilling to appropriate the requisite dollars from a fund which, while formally dedicated to UI administration, still serves to pad the plus side of federal deficit calculations.

The Subcommittee has heard numerous sources tell of lengthening unemployment lines, delayed payments, and overburdened state agency employees trying to stay afloat in an ever-rising tide of claimants. Neither the unemployed nor employers are receiving the service they deserve and -- in the latter case -- have paid for. As the Chamber has pointed out, often these employers have paid twice for this poor service: once to the federal government and once to a state which is scrambling to make up for funding not forthcoming from Washington. The Chamber urges the Subcommittee to take action to redress a situation that daily becomes more painful for all concerned.

Another topic receiving widespread attention -- though not unanimous agreement -- is the gap between the total number of unemployed persons and those receiving benefits. Eldred Hill, President of UBA, Inc. and a member of the Chamber's Council on Unemployment Compensation, recently made the excellent observation that this gap is not really a matter of "coverage." Many workers who are in fact covered by the system -- that is, their employers pay unemployment taxes on their wages -- do not collect benefits because they fail to meet basic eligibility requirements. This group includes workers who voluntarily quit their jobs, were discharged for misconduct, had not worked long enough to meet minimum qualifying requirements, or have exhausted the benefits available to them by law.

The UI system was designed as a program of income maintenance for temporarily and involuntarily unemployed persons who have demonstrated a strong attachment to the work force. Current data indicate that only about half of the current unemployed meet this definition. If the Subcommittee wishes to extend benefits to persons who do not meet this definition, it must be prepared to abandon a targeted UI program in favor of a welfare program under which entitlement, rather than eligibility, is the central criterion. On principle, as well as in light of federal budget constraints, the Chamber assumes the Subcommittee would not seriously consider such a drastic change in program character.

Some Subcommittee members have raised questions about state tax rates and benefit levels that impinge on the state's role in what always has been a federal-state partnership. The Chamber believes that states should retain the prerogative to determine the amount and duration of cash benefits, conditions of benefit qualification,

method of employer experience rating, and related matters. Each state can best judge its own unique economic and social conditions and create programs tailored to its short- and long-term needs, including cyclical economic variations. The Chamber strongly opposes attempts to recast the partnership in the direction of further federalization. The federal partner can best serve the system by making good on its funding obligations.

The Chamber thanks you for your consideration of its views, and requests that this statement be included in the February 6 hearing record.

Sincerely,

Donald J. Kroes

Donald J. Kroes
Vice President
Legislative and Public Affairs

cc: Subcommittee Members
Deborah Colton, Majority Staff Director
Ron Haskins, Minority Professional Staff Member

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